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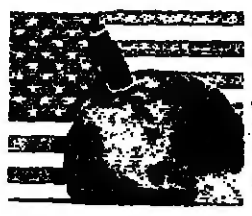

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FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY APRIL 13 1994 D8523A

France backs bid by China to join world trade body

France threw its weight behind China's application to join the planned World Trade Organisation, but said Beijing would have to comply with standards on workers' rights and labour conditions. China's application to join the WTO when it is set up early next year is expected to be discussed at length at a four-day conference of Gatt ministers from more than 120 countries which began in Marrakesh yesterday.

French industry minister Gérard Longuet also said his government's controversial demand for a "social clause" in the General Agreement on Tariffs and Trade was intended to prevent an outbreak of protectionism in Europe, not to promote one. Page 5; Sutherland challenged over "winners" claim, Page 5

LDP on offensive in Japan's PM contest: Yohei Kono, president of Japan's opposition Liberal Democratic party, went on the offensive in the battle for a new prime minister, saying he would put himself up for the job. Page 16; Finance minister warns on recovery, Page 7

Wrigley, the US company which supplies nearly 90 per cent of Britain's chewing gum, has given an assurance to the UK's Office of Fair Trading that it will not remove competitors' display stands from shops without written permission. Page 16

Kissinger launches S Africa mediation

Former US secretary of state Henry Kissinger (left) launched an international mediation mission in South Africa by calling on all parties to ensure its efforts were not in vain. Kissinger, flanked by six other mediators, told a news conference in Johannesburg that South Africa's transition to black majority rule was important for the whole world. Mediation hopes help financial rand recover, Page 6; Editorial Comment, Page 15

Daimler-Benz, Germany's largest industrial concern, is on the road to recovery after a record DM1.8bn ($1.05bn) net loss last year, said chairman Edzard Reuter. Page 17; Lex, Page 16

Rwanda's government flees: Rwanda's five-day-old government fled the embattled capital, Kigali, as rebels fought their way into the city in an attempt to seize power. Page 6

US inflationary pressure subdued: US producer prices for finished goods rose 0.2 per cent last month, indicating that inflationary pressure at the wholesale level remains fairly subdued, the Labour Department reported. Page 4

Israel and PLO agree on policing: Israel and the PLO said they had agreed terms for a 9,000-strong Palestinian police force and a timetable to release 5,000 Palestinian prisoners. Page 5

Asia's boom to continue: Asia's economic boom is likely to continue for the next two years although China remains at risk from overheating and India needs further reforms, the Asian Development Bank said. Page 7

Euro Disney: Banks expect to have finalised by the end of next week their FFr13bn ($2.2bn) financial rescue package to salvage the troubled leisure group. Page 17

Rouble returns to Belarus: Russia and Belarus unexpectedly concluded a monetary union treaty which will reintroduce the Russian rouble to the small Slav republic within months. Page 16; Moscow starts crisis talks with Kiev, Page 2

Energy needs to rise: World consumption of energy in 2010 will be about 50 per cent higher than in 1991 because of strong economic growth in Asia, according to a joint International Energy Agency and OECD study. Page 7

Forza builds party structures: Forza Italia has begun to convert itself from a movement backing Silvio Berlusconi's political ambitions into a proper political party. Page 3

Foreign exchange losses: Malaysia's opposition leader Lim Kit Siang accused the government of conspiring to cover up foreign exchange losses by Bank Negara in 1992 and 1993, which he said could be double the declared $5.6bn.

Los Angeles freeway reopens: The world's busiest freeway, which collapsed in two places during an earthquake in January, has reopened, marking the biggest success yet in Los Angeles' massive disaster-recovery effort. Page 4

■ Bank debts put at DM8bn ■ Chief executive quits and goes missing

Jürgen Schneider property group on verge of collapse

By David Waller in Frankfurt

The Jürgen Schneider group, one of Germany's most prominent property developers, is on the verge of collapse with banks owed up to an estimated DM8bn ($4.6bn).

Bank creditors were yesterday summoned to an emergency meeting after the the company's founder and chief executive stepped down and went missing.

More than 40 banks will meet tomorrow to consider Schneider's fate. Financial information on the privately owned group is scarce. Estimates of its total debts ranged between DM3bn and DM8bn, while the value of its 85 prestigious properties in Germany was placed at between DM5bn and DM8bn.

The collapse of Schneider would be one of the largest insolvencies in the German property sector since the second world war. Fears of the knock-on effects hit shares in German banks yesterday. Deutsche Bank – believed to be owed more than DM1bn – dropped by DM17.50 to DM791.50, well ahead of the overall market's decline.

The crisis follows the resignation and disappearance of Mr Jürgen Schneider, a 59-year old property developer. He had specialised in restoring elegant historical buildings throughout Germany from his base in a castle in Königstein, a fashionable town just outside Frankfurt.

The Schneider group said Mr Schneider had resigned on medical advice following an unspecified illness developed since Easter, and that his whereabouts were unknown. The group's board members said they were "thunderstruck" by the circumstances of Mr Schneider's departure, stressing that his absence denied the company access to significant sources of funds and forced it to turn to its bankers.

The events follow a long period of speculation about the group's financial soundness. It was triggered by rapid expansion, particularly in eastern Germany, combined more recently with widespread complaints in the building sector over Schneider's slowness in paying creditors. In February, Mr Schneider told a German newspaper the group was financially sound, but this did little to stop the rumours.

Property analysts said yesterday Schneider's collapse would have a big impact on confidence in the highly fragmented German commercial property sector. The sector has been depressed in the past two years, but so far has avoided the spectacular crashes common in other economies, particularly in the UK and the US.

The impact on the market overall is likely to be limited by the quality of the group's properties. They include the Berheimer Palace in Munich, the Hotel Rose in Wiesbaden, and two prestige shopping developments in Frankfurt – the Schiller Passage and the Zeilgalerie.

Schneider also owns the Mädler Passage in Leipzig, within which is Auerbachs Keller, where Mephistopheles proved a devilish drinking partner in Goethe's play *Faust*.

Of the group's 85 large properties, 32 are believed to be located in Leipzig, making the company by far the biggest private investor in the eastern German city.

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Jürgen Schneider: his departure from the property group he founded has left board members 'thunderstruck' Associated Press

Bosnian Serbs refuse to meet UN officials

By Edward Mortimer and Laura Silber in Sarajevo and David White in Madrid

The US and Russia called yesterday for a return to negotiations over Bosnia's future, but the Bosnian Serbs refused to meet United Nations officials or to allow free passage to UN military observers.

The UN said that more than 30 of its observers in Bosnia were being detained – some at gunpoint – by the Serbs. Mr Yakushi Akashi, the UN special representative, and General Bertrand de Lapresle, head of UN forces in former Yugoslavia, arrived in Sarajevo yesterday but the Serbs declined to meet them.

Meanwhile, President Clinton warned Bosnia's Moslem leadership not to take advantage of Nato's air raids against the Serbs to mount new offensives. Earlier, Moslem forces defending the enclave of Gorazde had broken an overnight lull in the fighting by opening fire with mortars on Serb troops surrounding the city.

Mr Clinton also said he had been encouraged by calls from Russia for a withdrawal of Serb forces from their newly acquired territory in the Gorazde area.

However, the US and Russia continued to differ over the legitimacy of using NATO air power. President Clinton said it was possible that air strikes might be used to protect not only Gorazde but five other UN-designated "safe areas" in Bosnia.

But President Boris Yeltsin of Russia warned that continued air attacks could prolong the war. Mr Yeltsin, concluding a visit to Spain, said of the Bosnian conflict: "In that part of the world, we can only think of a negotiated solution."

He confirmed the chill in East-West relations by saying that Russia, which has given conflicting signals about its intentions, was now in "no hurry" to enter the Partnership for Peace arrangement proposed by Nato. This was a surprisingly cool response to the proposal.

Mr John Major, the British prime minister, yesterday insisted that Nato had acted correctly in authorising air attacks on Serb forces and that there had been no need for consultation with any government – including Russia – before the strikes went ahead.

However, he sought to soothe Moscow's concern over the attacks by hinting that consultation with other governments might precede future air strikes. "Wherever it is militarily practicable, it is to wise to seek the support of those countries that supported that resolution," he said.

Also yesterday, in a show of defiance, Mr Radovan Karadzic, Bosnian Serb leader, and General Ratko Mladic, commander of Bosnian Serb forces, said they would shoot down any Nato aircraft flying over their territory.

Western officials said they doubted whether the Serb forces around Gorazde, believed to number 10,000 men and to be using around 25 tanks, had anti-aircraft guns that were sophisticated enough to threaten advanced Nato aircraft.

The two Serb leaders played a chess match on the front-line near Gorazde, in a show of unity that was clearly designed to scotch rumours that General Mladic has fallen into disfavour and is about to be replaced.

UN looks to Churkin's diplomacy, Page 2

Spain offers $725 trade-in on old cars

By Kevin Done in London and David White in Madrid

The Spanish government yesterday offered cash incentives to persuade owners of old cars to trade them in for new ones in an attempt to revive flagging sales.

The scheme follows a similar move by the French government in February, which quickly boosted new car sales above last year's depressed level.

There is speculation that the new Italian government may follow the French and Spanish lead.

The Spanish government is offering Pta100,000 ($725) for each 10-year-old car scrapped in exchange for a new one. Carmakers have announced their own incentives of up to Pta200,000 in addition to the government's offer, which lasts for six months.

In France the government is contributing FFr5,000 ($858) until the end of June next year for the withdrawal of old cars for new. The government expects the cost of the scheme to be balanced by higher value added tax receipts from increased sales, and is forecasting an increase in new car sales of around 10 per cent this year.

In Spain the cash is being offered as a Pta100,000 discount on the 13 per cent licensing tax levied on new cars. The total tax on cars is 28 per cent, including 15 per cent VAT.

Around 37 per cent of the 13m cars on Spanish roads are 10 years old or more. New car sales fell by 24 per cent last year to 744,000 from 980,000 a year earlier, although demand has begun to recover in the first two months of this year. Spanish car production fell last year by 16 per cent to 1.5m.

In Italy, speculation that a new right-wing government would copy the French and Spanish moves has helped to boost Fiat's share price this week.

In Paris, the share price of the PSA Peugeot Citroën group has also been helped by Spain's move to stimulate new car sales. The French carmaker led the Spanish market last year with a share of 20.2 per cent.

France's move should increase car sales there by more than 200,000 in 1994, Mr Louis Schweitzer, Renault chief executive, believes.

Virgin accord gives Delta access to main UK airport

By Paul Betts, Aerospace Correspondent, in London

Delta Air Lines, the third largest US carrier, has struck a deal with Virgin Atlantic Airways, a small British long-haul airline, which will give it access to Heathrow, London's main airport.

The deal does not include any equity investment, but Mr Ron Allen, Delta's chairman, and Mr Richard Branson, chairman of Virgin, said the door was open for an eventual exchange of shares.

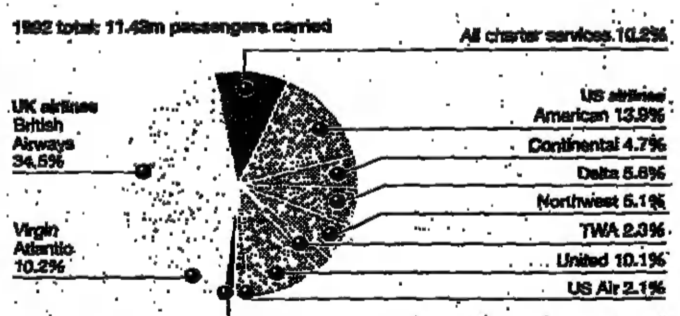
Under the partnership, requiring approval by the US and UK governments, Delta will purchase between 15 per cent and 20 per cent of seats on Virgin flights to London from seven US airports – Los Angeles, New York JFK and New York Newark, Miami, San Francisco, Orlando and Boston.

The US airline will independently price, market and sell these seats on flights which will carry Delta and Virgin flight codes. The scheme will not operate in the same way for Virgin passengers flying from the UK to the US. Instead, Virgin flights will link up with conventional interline agreements with Delta flights without full ticket code-sharing.

The agreement follows recent international airline alliances, including an equity stake taken by British Airways in USAir and a marketing agreement between Lufthansa of Germany and United Airlines, the second largest US carrier.

US-UK air traffic

1992 total: 11.43m passengers carried



Source: Civil Aviation Authority

The deal will enable Delta, which operates a fleet of 563 aircraft and carried 83m passengers last year compared with Virgin's 1.5m, to offer services under its own flight codes to Heathrow.

Delta, which currently operates flights from Gatwick airport, 25 miles south of London, had been pressing the US government to negotiate a new "open skies" agreement with the UK to give it access into Heathrow. Under the current agreement, only American Airlines and United can fly into Heathrow.

Delta stepped up negotiations with Virgin after Washington agreed last month to extend BA's code-sharing rights with USAir for an additional 12 months without securing greater access for US carriers into Heathrow.

"We still want to fly into Heathrow and we want open skies but we've also got to play by the house rules." Mr Allen said.

The deal will help secure Virgin's longer term future by enabling it to tap into one of the biggest US airline domestic networks, Mr Branson said. The deal could be worth up to

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■ **STOCK MARKET INDICES**

FT-SE 100:	3,159.1	(+9.7)
Yield	3.85	
FT-SE Eurotrack 100	1,486.27	(+7.20)
FT-SE-A All-Share	1,593.95	(+0.4%)
Nikkei	19,648.33	(-249.75)
New York: lunchtime		
Dow Jones Ind Ave	3,684.96	(-3.87)
S&P Composite	448.21	(-1.55)

■ **US LUNCHTIME RATES**

Federal Funds:	3⅝%
3-mo Treas Bills: Yld	3.642%
Long Bond	89⅞
Yield	7.215%

■ **LONDON MONEY**

3-mo Interbank	5¼%	(5⅛%)
Liffe long gilt future:	Jun 107¾	(Jun108⅛)

■ **NORTH SEA OIL (Argus)**

Brent 15-day (May)	$14.705	(14.7)

■ **Gold**

New York Comex (Jun)	$380.4	(379.9)
London	$378.9	(380.75)

■ **STERLING**

New York lunchtime:		
$	1.475	
London:		
$	1.4753	(1.4737)
DM	2.5356	(2.517)
FFr	8.6713	(8.6212)
SFr	2.1371	(2.1202)
Y	152.43	(152.27)
£ Index	80.1	(79.7)

■ **DOLLAR**

New York lunchtime:		
DM	1.721	
FFr	5.8645	
SFr	1.4502	
Y	103.45	
London:		
DM	1.7188	(1.708)
FFr	5.8779	(5.85)
SFr	1.4487	(1.4387)
Y	103.325	(same)
$ Index	66.4	(66.3)

Tokyo close Y 103.52

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rp40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
France	FFr9.00	Kuwait	Fils625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000
						UAE	Dh12.00

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NEWS: EUROPE

Russia-Ukraine tensions increase

By John Lloyd and Jill Barshay in Kiev

Relations between Ukraine and Crimea were tense yesterday, following Monday night's take-over by Crimean President Yuri Meshkov of the Crimean branches of the Ukrainian Internal Affairs and Security ministries.

The pro-Russian Mr Meshkov has sought greater autonomy from Kiev since his election as Crimea's first president in January, but has become far more confrontational since an overwhelming vote favouring the policy on March 27.

Observers fear that Mr Meshkov's moves, bitterly opposed by Ukrainian President Leonid Kravchuk, could escalate into a conflict with Russia. Nearly 70 per cent of Crimea's population is Russian.

At the same time, crisis talks began in Kiev yesterday to resolve the weekend's armed confrontations between Russian and Ukrainians in the Black Sea fleet. Last week Russian sailors defied Ukrainian orders and seized one of the fleet's ships. Ukraine retaliated by attacking a Russian naval base and arresting three Russian officers.

President Kravchuk's chief domestic adviser, Mr Nikolai Mikhailchenko, yesterday accused both Russia and Crimea of provoking conflicts and destroying opportunities to find compromises.

"Meshkov has begun the path of direct confrontation by making such sharp moves," he said, referring to Crimea's refusal to accept a Kiev presidential representative and order to restrict local conscripts from serving elsewhere in Ukraine, creating a de facto separate Crimean army.

Mr Meshkov has also replaced Kiev's appointees with his own in the two key national ministries.

It is not clear if this rising hostility is actually heading for a confrontation. Some western diplomats suggest that the noisy sparring is part of a strategy to keep the pressure on finding a political resolution involving a large degree of economic autonomy for Crimea.

However, there have been unconfirmed reports that Ukraine has increased the number of troops stationed on the peninsula, from 18,000 in 1991, to 51,000 today.

President Kravchuk's ability to focus on these issues has been hindered by continued uncertainty in Kiev's domestic parliamentary elections, under way for the last three weeks and not yet concluded.

International observers yesterday also raised serious concerns about the fairness of the elections. They cited pressuring of voters in rural regions, a politicised, poorly functioning central electoral commission and instances where access was denied to foreign observers at polling stations.

After two rounds of elections, some 337 seats in the 450-seat parliament are now filled. Most of the remaining 113 will go to a third round of voting at a date yet to be decided. So far Mr Kravchuk has lost half his government, including his prime minister, and the formation of a new government will be delayed at least until May, when the new parliament meets for the first time.

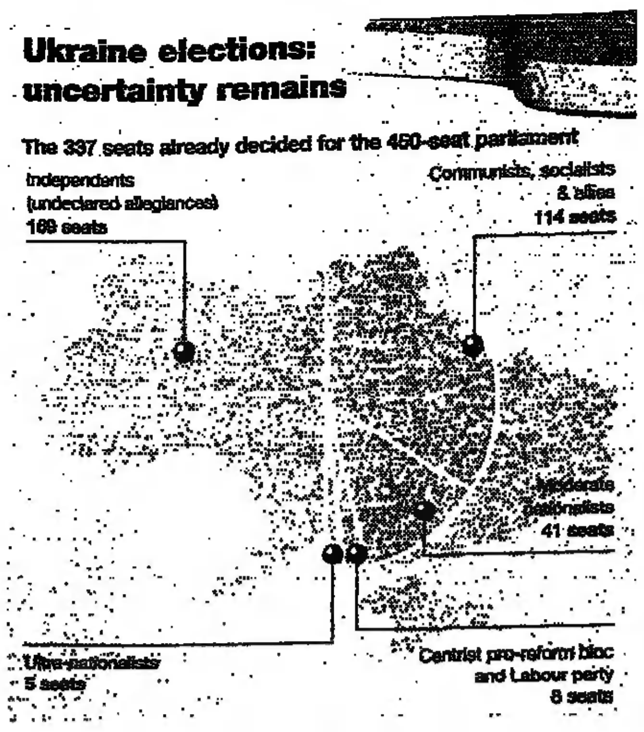
The parliament itself is likely to be embroiled in deadlock, deeply divided between pro-Russian leftists and westward-leaning nationalists.

Mr Kravchuk is also preoccupied with trying to delay his own presidential elections, now scheduled for June 26, and establishing a strong presidential republic, at the same time as his adversaries are working to reduce his position to that of a figurehead.

Feature, Page 15

Russia and Ukraine yesterday reached an agreement under which Kiev will clear its huge debt arrears to the Russian gas company Gazprom by July, Reuter reports from Moscow.

Mr Rem Vyakhirev, Gazprom head, announced the agreement after negotiations in Moscow with Ukrainian Deputy Prime Minister Valentyn Landyk. The two sides estimated the debt arrears at about $600m, compared with previous Gazprom estimates of $900m. Half the debt to Gazprom for deliveries in 1993 and the first quarter of this year will be paid in the form of property, possibly including a stake in Ukrainian gas pipelines and storage facilities. The two sides are due to meet again on May 10 to discuss implementation of the deal, which lifts the threat of a cut-off in supplies to Ukraine.



UN looks to Churkin's diplomacy

By Edward Mortimer and Laura Silber in Sarajevo

"Today is a politics day," said Canadian Major Roy Thomas, the senior UN military observer in Bosnia, yesterday, revealing the degree to which the UN is relying on the diplomatic skills of Mr Vitaly Churkin, Russia's special envoy, to extricate it from the rapidly escalating confrontation with the Serbs.

When Bosnian Serb leaders broke off relations with the UN on Monday, after Nato launched air strikes, they named Mr Churkin as the sole channel of communication.

Mr Churkin, who seems a personification of diplomacy, has now emerged as the central figure in the bid to stop fighting in Bosnia and bring the protagonists back to the negotiating table.

Yesterday he was on his usual diplomatic shuttle, the only mediator with access to both the Bosnian government and the Bosnian Serbs, after Mr Radovan Karadzic, Bosian Serb leader, on Monday refused to meet Mr Charles Redman, the US special envoy.

Churkin: emerged as central figure in bid to stop the fighting AP

His diplomatic finesse extends beyonds Bosnia. Last month, at the Russian embassy in Zagreb, he hosted a series of marathon talks between the Croatian government and the breakaway Serb state of Krajina, which led to a so-far effective ceasefire and raised hopes for a broader agreement.

Equally at home in Pale, the deserted ski resort which the Bosnian Serbs use as their mountain capital, or in the swimming pool at Vouliagmeni, the exclusive hotel near Athens where talks were held last year on the ill-fated Vance-Owen plan, Mr Churkin has become increasingly confident in his own ability to hammer out a settlement where others have failed.

As recently as last summer, western diplomats would claim derisively that they "sometimes had to remind Mr Churkin that he is not the Serbs' lawyer".

But Mr Churkin is an unusually smart and professional operator, far removed from the cameo image of a plodding and suspicious Soviet diplomat. A stint at the Soviet embassy in Washington early in his career has also equipped him with an impressive command of English, which further aids his assets as a mediator.

Mr Churkin is now facing the biggest challenge of his career.

On Monday, after Nato had launched air strikes on Serb targets which were attacking Gorazde, the Moslem enclave in eastern Bosnia, he contacted Mr Redman to express Russia's dismay at not having been consulted, suggesting that if it had been "we might have been able to do something".

He also conveyed Russian concern that the air strikes should target only weapons directly firing at UN positions. Moscow sought assurances that Nato would not hit Bosnian Serb command posts, let alone civilians.

World body hopes Russia's special envoy can extricate it from the escalating confrontation with the Serbs

Clearly, before Nato took such drastic action he would have liked to have had the chance to pull another rabbit out of the hat, as he did in February with his eleventh hour announcement that Russian peacekeepers would be deployed in Sarajevo.

On that occasion, air strikes were averted as Bosnian Serbs were able to obey Nato's ultimatum without loss of face.

Peace move in European motor industry

By Kevin Done in London and Gillian Tett in Brussels

European carmakers and automotive components suppliers yesterday launched a joint initiative aimed at improving the often hostile relationships between the two sides of the motor industry.

The two European trade associations representing the vehicle-makers and their suppliers agreed a set of guidelines to encourage improved co-operation. The aim is to improve the competitiveness of the European motor industry as it seeks to restructure to meet the fierce challenge from the US and Japan.

The protocol agreed yesterday will determine "fundamental principles" and "framework for co-operation."

The industry associations accepted that the guidelines could not give a legal or contractual definition to the relationship between vehicle-makers and component suppliers.

Improving relations has been seen as pivotal in raising the sector's international competitiveness, but the positive rhetoric has seldom been matched by practical steps.

A recent report in the UK sponsored by the Department of Trade and Industry and the Society of Motor Manufacturers and Traders was highly critical. "The mistrust which is in evidence is the result of many years of broken promises, abuse of confidence, and general acrimony in the industry," it said.

The guidelines agreed yesterday seek to create greater transparency in negotiations over costs and prices; to improve co-operation in design and manufacturing processes; to promote the effective adoption of modern manufacturing processes and to spread continuous quality improvement.

Telecoms deal 'ends monopoly set-up in EU'

By Andrew Adonis

This week's deal between 30 of Europe's leading multinationals and a small group of telecommunications operators marks the effective end of telecoms monopolies in the European Union, the head of the Dutch state telecoms company said yesterday.

The contract, for a private network linking the facilities of companies including Rank Xerox, ICI, Philips, ABN Amro and ABB, was won by British Telecommunications and an alliance of the US operator AT&T and Unisource, a joint venture between the Swiss, Swedish and Dutch state telecoms companies.

Addressing an FT-sponsored conference in London, Mr Ben Verwaayen, president of PTT Telecom Netherlands, said most large-user corporate telecoms users would soon have an effective choice of carrier for much of their voice traffic. This was despite the formal EU deadline of 1998 for ending monopolies on voice services.

"Very soon you will have a situation that, however closed it may look today, you will have alternative routings available," Mr Verwaayen said. He added, however, that effective competition in the residential market was likely to develop far more slowly. "The changes are more for those who give us large volumes."

This week's corporate contract, estimated to be worth up to Ecu500m (£393m) a year, exploits existing EU rules permitting private corporate networks and obliging state telecoms companies to provide leased lines for them.

This is allowing companies besides national monopolies to provide corporate services, provided they do not use the public network.

Telecom Netherlands is about to be privatised, and a competitor to it is likely to be licensed in the Netherlands soon.

NEWS: EUROPE

EUROPEAN NEWS DIGEST

Industry hopes lift in Germany

German industry expects to grow more quickly than previously predicted, according to a survey of 356 leading companies by the Munich-based Ifo economic research institute. Industrial production is expected to rise by 1.25 per cent this year, compared with predictions in a similar survey last summer of a 0.5 per cent fall. A growth rate of 2.5 per cent is predicted for 1995.

Many companies were so shocked by the intensity of last year's recession that they were loath to predict any recovery, the report said, explaining the sudden turnaround. Most branches of the economy expect real growth rates in the second quarter compared with the corresponding period last year. Higher export orders and growing demand in the engineering and car industries are now set to lift production in these sectors by 1.75 per cent this year and 4.5 per cent in 1995. However, output will only match mid-1989 production levels, the survey said. Sluggish demand in the west German economy means consumer goods production is expected to shrink 1.25 per cent this year before picking up 0.25 per cent next year. *Michael Lindemann, Bonn*

Euphoria shuts Milan bourse

Post-election euphoria on the Italian stock market, particularly among small investors, overwhelmed the Milan stock exchange yesterday. It was forced to close early after two chaotic "pre-opening" trading sessions. There has been a surge in activity since the victory in last month's election of Mr Silvio Berlusconi and his right-wing alliance. Volumes traded have sometimes overtaken Wall Street.

The stock exchange council was last night debating how to relieve administrative pressure at a particularly sensitive moment for the bourse's development. Tomorrow Milan makes the final move to a full screen-based trading system. Small orders, which take as long to process as large trades, are at the root of the problems, but the council does not want to discourage small investors, enticed into the market by Italy's successful privatisation programme. *Andrew Hill, Milan*

Finns to join Nato partnership

Finland plans to take part in Nato's Partnership for Peace plan for military co-operation but it is not seeking new defence solutions, according to the prime minister, Mr Esko Aho (pictured above right with Mr John Major, his UK counterpart, on a London visit). He said, however, that the move was not a step towards membership of Nato.

All non-Nato countries in Europe were invited to join the scheme two months ago, but Mr Aho stressed that Finland's situation was different from that of the former members of the Warsaw Pact. "So Finland's role in this issue will be different from that of the east European countries which have a security policy interest in this," he said. "We only want to give our support." *Reuter, Helsinki*

Ex-bank chief faces new claim

A Spanish parliamentary committee is to investigate fresh allegations against Mr Mariano Rubio, former governor of the Bank of Spain, in the latest of a series of embarrassing controversies facing the Socialist government. Mr Rubio is due next week to appear before parliament's economy committee to be questioned on allegations that he may have evaded tax on investment gains while in office. The daily El Mundo newspaper last week published reports claiming Mr Rubio had kept some Pta130m (£643,500) in a secret account. Another case, over alleged illicit enrichment by the former Civil Guard director, Mr Luis Roldán, another government appointee, is already under investigation.

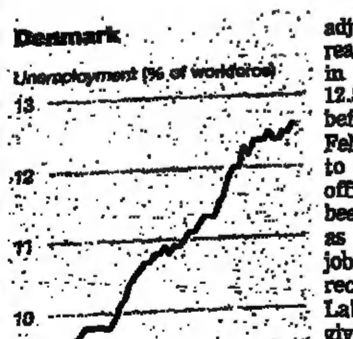
Mr Felipe González, the prime minister, said earlier he had defended Mr Rubio "in good faith" over his links with a failed private banking venture, Ibercorp. Mr Rubio, who was Bank of Spain governor from 1984 to 1992, was questioned by a parliamentary committee over the Ibercorp affair two years ago. There was no proof that he had behaved improperly. *David White, Madrid*

Walesa approves budget

President Lech Walesa yesterday signed into law Poland's 1994 budget, ending weeks of speculation that he might veto it to show his disaffection with the left-wing government. He signed the law two days before the Paris Club of government creditors decides whether Poland has met all the conditions for completion of a 50 per cent reduction of its official foreign debt under a 1991 agreement. The Paris Club is expected to clear the final 20 per cent tranche of the agreement struck when Poland's official debt was about $35bn (£23.9bn). The budget envisages a deficit of 83,000bn zlotys (£2.5bn), equivalent to about 4.1 per cent of gross domestic product and a limit acceptable to international financial institutions. It also allows for a 4.5 per cent increase in GDP this year and annual inflation of 23 per cent, compared with more than 37 per cent in 1993. *Reuter, Warsaw*

ECONOMIC WATCH

More Danes out of work



Source: Datastream

Denmark's seasonally adjusted unemployment rate reached a record 12.6 per cent in February, compared with 12.5 per cent the month before and 11.9 per cent in February last year, according to the official statistical office. Unemployment has been forecast to fall this year as a result of a government job creation programme and recovery in the economy. Labour market reform has given full-time workers paid leave so that the unemployed can fill their posts for a short period. The statistical office attributed the unemployment rise to delays in implementing other "workfare" and job training programmes. These problems were blamed by Mr Mogens Lykketoft, finance minister, for increasing unemployment by about 20,000. *Hilary Barnes, Copenhagen*

■ France's consumer price index rose a provisional 0.2 per cent in March from the previous month and advanced 1.5 per cent year-on-year, the national statistics institute Insee reported yesterday. Since the beginning of the year, the index has risen by 0.6 per cent, according to Insee.

■ Producer prices in the Netherlands rose 0.3 per cent in February from the previous month but fell by 0.7 per cent from a year earlier, the central statistics bureau said yesterday. In January the index was up 0.2 per cent on the previous month, and 0.8 per cent lower than a year earlier.

■ The Swedish debt office reported yesterday that the public sector borrowing requirement last month was SKr18.5bn (£1.59bn). It also estimated a borrowing requirement of SKr5.9bn for April.

Politics makes Fininvest a public business

Robert Graham on a conflict of interest for owner of Italy's second biggest private company as he prepares to govern

Close associates of Mr Silvio Berlusconi say the Italian media magnate has become so taken by his new political role he is willing to turn his back on his Fininvest business empire.

But even if Mr Berlusconi is infatuated with politics, he has done little to resolve the serious conflict of interest between his role as a politician and his ownership of Fininvest, Italy's second largest private company. This issue is becoming increasingly urgent as he looks set to form the next government.

During the past week Mr Berlusconi has floated the idea of creating an American-style "blind trust" for his stake in Fininvest. But he has given no details; and neither a blind trust nor other possible solutions to the potential conflicts of interest would be easy to implement.

Italian law is ill-equipped to cope with the sheer size of the problem. Fininvest, with a L11,600bn (£4.8bn) turnover, has interests ranging from television, advertising, publishing and telecommunications to retailing, insurance, pensions funds, healthcare and sport.

Legal experts say the US blind instrument would not be easy to adapt to circumstances in which a company controls activities of public interest, such as television.

For another thing, the US blind trust envisages an essentially "caretaker" management which is not easily compatible with the re-organisation at Fininvest designed to reduce massive debt in a group barely showing profit. In 1993 debt totalled L3,800bn, a third of turnover.

Last October Mr Berlusconi appointed Mr Franco Tato from his publishing arm, Mondadori, as the group's first chief executive. Since Mr Berlusconi formally entered politics in January, Mr Tato has, in effect, been in charge. But in the terms of the US blind administration, Mr Tato would not be able to make the kind of strategic choices Fininvest needs: he has to decide whether Fininvest should remain a conglomerate or concentrate on its core media business.

The setting up of a satisfactory blind trust is complicated by the secretive tax shelter nature of the Berlusconi family's ownership structure of Fininvest and the fact that it is not a quoted company.

According to Fininvest officials, Mr Berlusconi and his family own 51 per cent of the company. The remainder is held on their behalf through two trust companies, Servizio Italia and Saf, set up by BNL, the big state commercial bank.

Media magnate Berlusconi has yet to reconcile his roles of businessman and politician

Mr Berlusconi has never revealed the precise ownership split between his own stake and that of the rest of his family, but he is understood to exercise full control.

Another means of distancing Mr Berlusconi from the conflict of interest would be to place his stake in Fininvest into a special foundation in favour of his five children, the two eldest of whom are already on the board of the group. Though attractive, this solution risks creating big tax liabilities under existing company law.

The other mooted solution involves divestiture of Fininvest assets, especially those most likely to clash with Mr Berlusconi's role in government – such as television. Divestiture, however, would be neither quick nor simple.

For instance, the value of Fininvest's three commercial television channels, which account for 45 per cent of the national audience, depends on how the new government and parliament choose to review the 1990 legal distribution of state and commercial networks.

If Fininvest were obliged to divest one channel, the value of that channel would be hard to gauge since all three channels currently rely on the same transmission facilities and enjoy a common library of film stock.

Unless Mr Berlusconi were forced into a "fire sale", divestiture of all or part would take considerable time. Fininvest would want to hold out for the best price; while any big asset sale would involve unravelling the group's complex debt and fiscal structure.

For instance, Fininvest managers have been trying to find suitable purchasers for the Standa stores chain for more than a year to reduce the heavy burden of the group's debt.

Mr Berlusconi, who bought Standa in 1988, spent almost L1,000bn on the deal and subsequent investments. Standa, itself a loss-maker with a current book value written down to L500bn, has been sweetened by the inclusion of other retailing interests, including Euromercato, and is now believed to be worth L1,300bn.

Talks with Germany's Karstadt and Carrefour of France have so far failed to produce a deal.

It is not hard to see why Mr Berlusconi favours a blind trust: Fininvest would be retained more or less intact. But for a blind trust to have the minimum of credibility, the operation would require transparency from what has been one of the most opaque groups in the Italian private sector.

Whatever Mr Berlusconi decides, government policies are likely to cross Fininvest interests at every turn. The company, for instance, would benefit from any liberalisation of the state-controlled telecommunications regime, in particular access to telephone lines for television image transmission or new laws favouring cable and pay-TV; Fininvest's publishing interests would benefit from the ending of the newspaper/magazines distribution monopoly through kiosks; Fininvest's insurance business would benefit from Mr Berlusconi's plans to accelerate the introduction of private pension funds.

Mr Berlusconi risks having to explain continually that he or his family are not beneficiaries of government policy. And if he fails to distance himself satisfactorily from Fininvest, he will play into the hands of those who have claimed all along that he entered politics to protect his business interests.

Forza Italia begins change from force to party

Forza Italia has begun to confront the problem of converting itself from a movement backing Mr Silvio Berlusconi's political ambitions into a proper political party, writes Robert Graham in Rome.

The full-time post of party secretary has been created to co-ordinate a permanent five-strong secretariat. Mr Berlusconi will be chairman but the principal organisational role is expected to be carried out by Mr Domenico Mennitti, the new secretary.

A 54-year-old journalist and executive in Mr Berlusconi's Fininvest group, Mr Mennitti is a former parliamentary deputy for the neo-fascist MSI who defected to Forza Italia before the election. One of his first tasks will be to carry out proper checks on the more than 13,000 Forza Italia clubs formed over the past five months throughout Italy. This applies in particular to the south.

Yesterday, Ms Tiziana Parenti, a former Milan investigative magistrate who was elected as a Forza Italia deputy, warned that the clubs could be infiltrated by the Mafia. She was speaking during a two-day conference of newly-elected Forza Italia deputies preparing for the opening of parliament on Friday.

The previous day Ms Parenti, a possible ministerial candidate, criticised Mr Berlusconi for failing to act more quickly to separate Forza Italia as a political movement from the organisational structure of his Fininvest empire. Forza Italia was set up and run by executives on secondment from Fininvest, mainly using the network of representatives of Publitalia, the group's advertising arm.

"I regret that we have to have gentlemen from Publitalia running the next political phases of our movement," Ms Parenti said. At least 40 executives are understood to have taken unpaid leave from Fininvest to help fight the election.

In reply to this continued Fininvest linkage with Forza Italia, Mr Berlusconi said his company executives must now decide whether they were to devote themselves to politics or return to business. The names of the people likely to form the five-strong secretariat are all Fininvest employees.

Brussels set for court on Macedonia

By Gillian Tett in Brussels

The European Commission was yesterday poised to take Greece to the European court over its blockade of the former Yugoslav republic of Macedonia. An intensive round of last-minute diplomacy apparently failed to persuade Athens to back down over the issue.

The move could face the Commission with an unprecedented institutional crisis.

A meeting of commissioners in Brussels today is expected to ask the European Court of Justice to begin the legal proceedings against Greece, on the grounds that the Greek action is in contravention of article 225 governing European Union commercial policy.

It follows an ultimatum to Greece to remove its blockade or provide fresh reasons for its action.

Although legal cases against member states normally take about 18 months to pass through the court, Brussels is likely to ask for an emergency interim judgment, which would probably take three to six weeks.

Commission officials yesterday said they were confident the court would find for them. But with Greece showing little sign of backing down, and member states apparently reluctant to provoke a head-on collision with Athens over the issue, they admitted that it remained unclear how far any court ruling could be enforced in the absence of a broader political agreement.

Under the newly revised article 171 of the Maastricht treaty the European court has powers to fine a member state for a transgression of EU law, but it has not yet done so.

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Mitchell turns down Supreme Court offer

By Jurek Martin in Washington

Senator George Mitchell of Maine yesterday withdrew his name from consideration for the vacancy on the US Supreme Court on the grounds that he could best serve President Bill Clinton by leading the Congressional effort to pass healthcare reform.

The Democratic majority leader, the initial favourite to succeed the retiring Justice Harry Blackmun, said Congress had "a rare opportunity" to pass "comprehensive, meaningful healthcare reform and I don't want to do anything to detract from that".

Mr Mitchell, who has already announced his intention to leave Congress at the end of the year, made up his mind on Monday afternoon and later met Mr Clinton in the White House.

"He told me that he wanted to appoint me to the court," Mr Mitchell said, "but that he was concerned as I was about the prospect that the nomination would affect my ability to serve as majority leader for the rest of the session." The president, he added, had "reluctantly accepted" his arguments for turning the Court appointment down.

The White House had been actively exploring ways in which the Senator might be nominated, but still remain in Congress by delaying either a confirmation vote or his swearing in as a justice until the end of the session.

Mr Mitchell may yet end up on the Court, possibly as Chief Justice. It is widely assumed that Mr William Rehnquist, the conservative incumbent, will stay on the bench until the 1996 election, not wishing to hand Mr Clinton another opportunity to shape the Court. But should Mr Clinton or another Democrat be returned, his retirement would be expected, with Mr Mitchell a logical replacement.

The president has no shortage of alternatives for the Court. Leading candidates are known to include Judge Jose Cabranes of Connecticut, who could become the Court's first Hispanic member, Mr Drew Days, the solicitor general and prominent black jurist, and two women, Judges Amalya Kearse and Judith Kaye, both of New York.

Mr Mitchell's decision to say in Congress and fight for healthcare reform underlines the high stakes of this pivotal item on the president's agenda. Both the president and Mrs Hillary Clinton spent most of last week on the road lobbying for their legislation.

George Cashman, president of Boston Teamsters Local 25, in the middle of a shoving match with police on Monday in North Reading, Massachusetts, outside the Roadway Freight Terminal. Over 100 union pickets were met by police after an attempt to block lorries at the depot in the union's first national strike in 15 years. The dispute is over use of part-time employees. *Associated Press*

US inflationary pressure subdued

By Michael Prowse in Washington

US producer prices for finished goods rose 0.2 per cent last month, indicating that inflationary pressures at the wholesale level remain fairly subdued, the Labour Department reported yesterday.

The increase excluding the volatile components of food and energy was also 0.2 per cent, in line with analysts' projections.

However, price indices for goods at an earlier stage of production were less subdued, reflecting recent increases in commodity prices. The producer price index for crude materials rose 2.8 per cent last month, following a 1.3 per cent decline in February. Increases in the crude materials index tend to lag increases in finished goods prices.

For the year to March prices for finished and crude goods were up 0.2 per cent and 2.1 per cent respectively.

Merger stance upsets defence industry in US

By George Graham in Washington

A Pentagon review of the application of anti-trust law to mergers in the shrinking US defence industry is disappointing companies in the sector.

Although the report calls on the Justice Department and the Federal Trade Commission to take the Pentagon's views into account when they assess the anti-trust implications of a proposed defence industry merger, it stops short of recommending changes to existing laws or regulations, and rejects exempting the defence industry from anti-trust rules.

The US defence industry has been shrinking steadily as the Pentagon's procurement budget has fallen from its peaks in the early 1980s. Top officials such as Mr William Perry, defence secretary, and Mr John Deutch, his deputy, say they expect a further one-third contraction over the next five years.

But some companies complain that the consolidation of their industry needs has been held up by the inappropriate application of anti-trust rules to the sector.

Industry executives were particularly concerned when the Federal Trade Commission in 1992 blocked the acquisition of Olin Corp's ammunition division by Alliant Techsystems, on the grounds that the merger would create a monopoly supplier of 120mm shells used in the Abrams tank and of 30mm lightweight ammunition used in the Apache helicopter.

Some defence industry analysts say the Pentagon could very well have swayed the FTC, but did not in fact argue very strongly in favour of the Olin-Alliant merger.

Critics of the FTC's intervention say, nevertheless, that it ran against the reality that in many military fields there is now only room for a single supplier, and that the Pentagon – itself a monopsony or single buyer – is well able to defend itself against price-gouging.

Anti-trust officials argue, however, that they have shown considerable flexibility in assessing defence mergers and have, in fact, objected to only 1 per cent of such deals over the last decade.

Big mergers such as Northrop's \$2.2bn (£1.5bn) recent agreement to buy Grumman or Martin Marietta's takeover last year of the General Electric aerospace division have not drawn anti-trust objections.

See Editorial Comment

Los Angeles freeway reopened

The world's busiest freeway, which collapsed in two places during an earthquake in January, reopened on Monday night, marking the biggest success yet in Los Angeles' massive disaster-recovery effort, Reuter reports from Los Angeles.

For the first time since the 6.8-magnitude quake struck, traffic moved across the full length of the Santa Monica Freeway, the city's main east-west artery.

The reopening was originally planned for early yesterday – in time for morning commuters – but crews finished their work with time to spare and officials raced to the scene for a brief ceremony in time to make the late-night newscasts.

Smiling proudly for the cameras, Governor Pete Wilson, US Transportation Secretary Federico Peña and Mayor Richard Riordan removed a half-dozen plastic orange cones from the roadway and the first cars passed seconds later.

The closure of the freeway, which normally carries 300,000 motorists each day across a 15-mile stretch between downtown Los Angeles and coastal Santa Monica, had been a stark reminder of this year's seismic upheaval, which killed 60 people, snapped freeway overpasses and made more than 20,000 homes uninhabitable. Losses have been estimated at up to \$20m (£13.6m), making it the second most costly natural disaster in US history after Hurricane Andrew in 1992.

Work on mending the Santa Monica Freeway, also known as Interstate-10, began on February 5. It reopened 73 days ahead of schedule, earning the construction company C.C. Myers a bonus of \$200,000 a day saved, or \$14.8m.

But even with the Santa Monica Freeway back to normal after \$30m-worth of reconstruction, drivers may still have reason to worry. The Los Angeles Times reported yesterday that in its haste to reopen the freeway, the California Department of Transportation let two replacement bridges be built with seismic weaknesses that must be corrected to prevent significant damage in a future quake.

Commuters' headaches are not over yet. Repairs under way on the Golden State Freeway and other main roads are expected to take months to complete.

US policy switch on economic reform

By Stephen Fidler, Latin America Editor, in Guadalajara

The US has mapped out a marked shift in its approach to economic reform in Latin America, laying increased emphasis on government action.

Mr Lawrence Summers, Treasury under-secretary for international affairs, told the Inter-American Development Bank annual meeting in Guadalajara yesterday that the central challenge for the region in the next decade was making government a constructive force. "Markets alone, without government action, cannot bring the shared prosperity that we crave," he said.

This was "the core idea that animates Bill Clinton's presidency" and "should be the top of any agenda for Latin America and the Caribbean today."

The Bush administration's approach emphasised market-oriented reform, laying little emphasis on the role of the government. Mr Summers said there had been important progress towards disinflation, deregulation, divestiture of government enterprises and reducing debt, but now work had to be done to create effective government.

He emphasised the importance of strong enforcement of legitimate laws and expressed support for the IADB's new efforts to promote judicial reform. Effective collection of taxes was important if tax rates were not to burden economic activity unduly and if taxation was to be fair.

Corruption was also an increasingly critical problem, which subverted development and democracy. He invited Latin American governments "to join us in adopting national procurement rules that place a premium on transparency and open access".

Again reflecting the Clinton administration's domestic concerns, Mr Summers also called on the IADB to help restructure labour laws "to ensure stronger, more independent labour unions," to protect workers' rights, including minimum standards for health and safety, and to rewrite and enforce environmental protection laws.

Latin America counts cost of infrastructure neglect

Stephen Fidler on implications of Inter-American Development Bank's changed approach to lending

Government officials took a small step this week towards addressing a big problem: financing Latin America's huge infrastructure needs.

Yet that step – a mandate for the Inter-American Development Bank to lend up to 5 per cent of its capital to private borrowers without government guarantee – has emphasised the size of the problem rather than offered any expectation of a rapid solution.

The run-down of Latin America's infrastructure came during the 1980s as governments squeezed spending, and now represents a severe obstacle to growth. According to World Bank estimates, fulfilling demand for infrastructure capital in Latin America will require more than \$1bn (£778m) a week. Of the annual requirement of \$60bn, \$24bn is needed for power projects, \$12bn for water and sewerage systems, \$10bn for telecommunications and \$14bn for transport.

After a wave of privatisation, much of the region's infrastructure is in the hands of the private sector and continued budget stringency severely limits governments' ability to build infrastructure alone. Yet the World Bank itself cannot lend without government guarantee and the IADB's new mandate only implies direct lending capacity of \$350m a year. "It's a drop in the bucket," agreed Ms Nancy Birdsall, the bank's executive vice-president.

Even lending at this level was controversial among some of the IADB's government shareholders, who feared losses on such lending might put the bank's top credit rating at risk. Their concerns were accommodated by the strict limits on the bank's lending: it is limited to a maximum of either \$75m or a quarter of the total cost of a project, whichever is the smaller. The rest will have to be raised either from private markets, commercial banks or from government development banks such as Mexico's Banobras.

The worries were driven by the IADB's experience in the past with direct lending to the private sector. The bank lost most of what it lent direct to the private sector in the 1960s (it totalled \$70m) and the bank's private sector financing arm, the Inter-American Investment Corporation is viewed by some shareholders as being a failure.

The IIC's future will be decided at a meeting of its board in June, but those familiar with the US government's position say Washington sees it as lacking in vision, performing poorly and being inefficient, and would like to see it privatised. The institution, with assets of \$365m, lost \$7.4m last year.

Ms Birdsall claims the IIC's 1960s losses were too long ago to be relevant, and that the organisation has been plagued by high administration costs – its small projects often require as much administration as much larger ones – rather than losses on loans.

The IADB would also probably make more use of its guarantee authority – providing warranties for the non-commercial risk associated with projects – and provide contingency guarantees, she said. For example, it would offer to extend loan maturities beyond that which would normally be acceptable to the private market.

The World Bank is also looking at the infrastructure question. Mr Javed Burki, the bank's new vice-president for the region, said a new initiative would be launched by the bank in the region later in the year.

It would focus on four issues:

- Aiming to establish a partnership between public and private sector finance.
- Encouraging development of the region's domestic capital markets so funds for infrastructure could be raised locally.
- Trying to ensure projects were not developed in isolation but with governments playing a role in establishing an overall framework.
- Looking at infrastructure development in a regional context so as to ameliorate the growing pains of economic integration.

Mr William Rhodes, vice-chairman of Citibank, the US commercial bank with the biggest involvement in Latin America, said he expected "organisations such as the World Bank and IADB to involve themselves more with commercial banks in co-financings of infrastructure". In doing so, they would be able to encourage private lending of four to five times the sum they themselves committed, he said.

Government export credit agencies may also play a larger role. Mr Kenneth Brody, head of the US Export-Import Bank, said in Guadalajara last week: "Until now, Ex-Im would be classified together with many of the other credit agencies as relatively passive in the financing of projects... Now, in place of being passive, we are going to be aggressive; instead of being a follower, we are going to be a leader."

There is also, some financiers believe, an important role for domestic development banks. However, history again provides depressing reading. Most multilateral lending to the private sector in the past has been channeled through development banks, which in many countries were corrupt, inefficient and, eventually, bankrupt.

The new development banks should, at least in theory, operate differently. Mr Jacques Rogozinski, head of Mexico's Banobras, which has assets of some \$7bn, says he has no intention of lending for projects where the money is not going to be repaid.

Where projects required a government subsidy, those subsidies should be transparent. Private sector finance would be important in freeing government funds for other areas where private finance was less viable, he said.

Private finance thus remains essential to squaring the infrastructure circle. While some bankers emphasise that the securities markets can play an important role along with banks in infrastructure finance, most experts in the field remain pessimistic that anywhere near the kind of funds needed can be generated. "If you're asking whether the \$60bn is going to be found, I don't think it will be found," Mr Rogozinski said.

Wave of unrest and violence against foreigners

Extra powers for Guatemala army

Guatemala's President Ramiro de León announced late on Monday the country's powerful military would take charge of internal security in an effort to combat violence and growing unrest, Reuter reports from Guatemala City.

"The army... will act with all its energy but within legal limits against groups who have been committing acts of violence and creating a climate of instability," said Mr de León in a televised speech.

Mr de León called the national police force "incapable" of ensuring order but added the army's participation in his new security plan would not lead to the militarisation of Guatemala. "The government will maintain its legalistic policies."

Guatemala has been in a state of crisis for the past month with a series of attacks on foreigners, assassinations and kidnappings, and Mr de León has been under pressure to deliver tough solutions to combat unrest.

The president of the country's highest legal body, Mr Epaminondas González, 61, was assassinated by gunmen outside his Guatemala City home 10 days ago.

Hysteria that foreigners might be stealing local children and selling their organs for transplants has provoked three attacks on American tourists in the past month.

An American journalist, Ms June Weinstock, from Fairbanks, Alaska is still in a coma after an assault by peasants who beat her when she tried to photograph a child in northern Guatemala.

Mr de León, once Guatemala's top human rights official and an outspoken critic of the country's armed forces, was elected president in June last year to replace former president Jorge Serrano, who was ousted after a failed bid for dictatorial powers.

NEWS: WORLD TRADE

France backs China to join new world trade body

GATT

Guy de Jonquières reports from the final Gatt meeting in Marrakesh

France yesterday threw its weight behind China's application to join the planned World Trade Organisation, but said Beijing would have to comply with any standards on workers' rights and labour conditions agreed by the new body. Mr Gérard Longuet, French industry minister, also said his government's controversial demand for a "social clause" in the General Agreement on Tariffs and Trade was intended to prevent an outbreak of protectionism in Europe, not to promote one.

Mr Longuet, who recently returned from an official visit to China, said his government favoured the country's membership of the WTO, successor to Gatt. However, he said: "If one is in the Gatt, one accepts the disciplines. One cannot make a special case for China. When one mentions a social clause and China's WTO entry, it is with the idea of the most basic principles."

China's application to join the WTO when it is set up early next year is expected to be discussed at length at a four-day conference of Gatt ministers from more than 120 countries which began in Marrakesh yesterday. The issue has already been raised in bilateral talks here involving Mr Peter Sutherland, Gatt director-general, and will be a high priority at a meeting tomorrow of the "Quad" powers – the US, EU, Japan and Canada.

Mr Longuet, who was speaking after a meeting with Mr Mickey Kantor, US trade representative, said they had agreed that labour standards, completion of negotiations on liberalising trade in financial services and widening an agreement on aircraft subsidies should be the WTO's top priorities.

He said France and the US agreed fully on financial services, but the US had yet to match the European Union's offers in bilateral talks on opening their public procurement markets.

Mr Kantor and Sir Leon Brittan, the EU trade commissioner, hope to reach a procurement deal this week which would open to competition contracts worth about $200bn annually.

Mr Longuet said the main stumbling blocks were the difficulty of extending competition to US states and the vertically-integrated structure of many North American telecommunications companies, which made much of the equipment they used.

Mr Longuet appeared to have obtained little clarification from Mr Kantor about whether the US expects to maintain its Section Super-301 provision – allowing Washington to impose trade sanctions – after the Uruguay Round takes effect next year. The French minister hoped that would become clearer when the round was presented to Congress for approval.

He expected international negotiations on restricting civil aircraft subsidies would resume next month in the Paris-based Organisation for Economic Co-operation and Development. The negotiations aim to extend to other industrialised countries an agreement reached last year by the EU and the US.

Mr Longuet insisted that France's demands for a Gatt "social clause" – which have divided the EU and been criticised by developing countries – were not "a scarecrow or a protectionist measure". He also did not want labour standards to be imposed on Gatt members.

His government was seeking a debate on the question so that it could respond to a "protectionist and populist trend" which questioned the benefits of free trade. "If we do not reply, there will be a risk of a protectionist reaction," he said.

Sutherland challenged over 'winners' claim

By Frances Williams in Marrakesh

Aid agencies yesterday challenged the robust assertion by Mr Peter Sutherland, Gatt director-general, on Monday that all countries would gain from the Uruguay Round trade accords.

Mr Peter Madden, of London-based Christian Aid, said there was general agreement by economists that there would be losers, at least in the short term, while the long-term benefits were uncertain. African and Caribbean countries stand to be worst affected.

Christian Aid is calling for additional assistance to compensate those made worse off, by way of debt relief, aid to take advantage of market opportunities and the granting of new trade preferences.

Ministers in Marrakesh for this week's signing of the Uruguay Round deal are due to approve a decision calling for extra help for poor net food-importing countries, who may face higher food bills as western export subsidies are reduced. But Mr Madden said this did not go far enough.

A World Bank/OECD study published last year put the losses for all Africa at $2.6bn annually after 10 years, while internal World Bank estimates suggest transitional costs could persist for 15 years.

Christian Aid identifies the losers as falling into four categories: net food importers; countries now benefiting from trade preferences, notably under the Lomé Convention with the European Union; commodity exporters; and those too underdeveloped to take advantage of new trading opportunities.

Gatt director general Peter Sutherland (left) talks with Uruguayan foreign minister Sergio Enrique Abreu Bonilla, chairman of the meeting, at the opening session of the trade negotiations committee in Marrakesh AP

Plea to EU for Lomé convention countries

By Alison Maitland

The European Union was yesterday urged to rethink its trade policies towards African, Caribbean and Pacific countries in the Lomé convention to help them cope with losses under the Gatt agreement.

Mr Orlando Marville, chairman of the ACP committee of ambassadors to the EU, told a conference in London that world trade liberalisation was projected to cut the value of tropical exports from the 70 ACP countries to the EU by between 8 and 16 per cent.

This was because preferential trading arrangements between the EU and Lomé countries would be eroded by the opening of the European market to competitors, he told the conference on Gatt and developing countries, organised by the Catholic Institute for International Relations.

While tropical products represented 44 per cent of overall ACP exports to the EU, some countries stood to lose particularly because of their dependence on a single commodity.

Tobacco, for example, accounted for 55 per cent of Malawi's exports, while Mauritius was 50 per cent dependent on sugar receipts from the EU.

Moreover, the fall in export subsidies under the Gatt deal would push up prices of cereals, dairy products and meat, which would hit net importers among the ACP countries.

MARRAKESH DIARY

Benefits of free trade deal are felt already

The beauty of free trade, as Adam Smith argued two centuries ago, is that it makes everybody better off. But rarely has anyone reaped the benefits quicker than the city of Marrakesh, for whom the Uruguay Round trade accord is proving a splendid gravy train.

Not only have the 3,000 attendants at this week's ministerial conference of the General Agreement on Tariffs and Trade filled hotels and restaurants to capacity; in preparation for their arrival, the city has been given a giant spring clean, at an estimated cost of Dh60m (£4.3m).

The previously faded glories of the 1,000-year-old imperial capital have been revived with a fresh coat of paint on every wall that the VIPs are likely to see, while pot-holed roads have been re-surfaced to billiard table smoothness. The country's first cellular telephone network has been rushed into service, while several top hotels have installed videophones – an innovation in Morocco – which enable users to see each other while they talk.

But perhaps the biggest wonder of all is the overnight disappearance of the hordes of beggars, pickpockets and assorted conmen who habitually prey on unsuspecting tourists. After years of fruitless debate by the city fathers on how to deal with this problem, the central government has solved it at a stroke by rounding up several thousand of the usual suspects and shipping them off to a distant army camp for the duration.

Drivers of the city's fleet of horse-drawn carriages have also been instructed to refrain from their frequent practice of over-charging customers and now accept the official fare, albeit grudgingly. However, the spirit of profiteering is not entirely dead. The newsagent in the Atlas Asni Hotel, home of the press centre, is cheerfully demanding Dh50 for day-old copies of the FT with a cover price of Dh15.

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The question most frequently asked here is why was Marrakesh chosen for the conference in the first place. Mr Arthur Dunkel, the last Gatt director-general, claims some of the credit. He first floated the idea of an African venue for the Uruguay Round signing while on a visit to Morocco in 1990. King Hassan – described by Mr Dunkel as a visionary leader – jumped at the idea.

The king apparently believes that the long-term political benefits of playing host will be even bigger than the short-term economic boost to Marrakesh. As well as demonstrating the country's commitment to economic reform and openness to the outside world, the event is clearly intended to cement links with the west. With troubles deepening in neighbouring Algeria, Morocco may well need all the foreign friends it can get in the next few years.

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The biggest friend of all is the US, which Morocco was the first country to recognise after the American war of independence. Washington is displaying its belated gratitude by sending vice president Al Gore on a lightning trip to Marrakesh this week.

Though the visit is due to last only seven hours, its logistics have been creating headaches for high-powered American diplomats more used to haggling over tariffs and quotas. First, they have to greet the vice-presidential motorcade, being shipped in by a huge C-5A transport aircraft. Then there is Mr Gore's ample retinue, due to arrive with him on Air Force Two tomorrow.

Fortunately, there is already a skilled advance man on the ground in the shape of Mr Marc Ginsberg, US ambassador to Morocco. A Clinton campaign groupy and foreign policy wonk, Mr Ginsberg speaks not only good French but also Arabic, learned as a child while his architect father was working in the Middle East.

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Japan's advance work has, typically, been even more diligent. More than a month ago it dispatched a top diplomat on a fact-finding mission to Marrakesh. As he explained with some glee, his main task was to locate and then try out all the nearby golf courses. Seasoned trade policy experts suspect it is really a cunning ruse to enable Japanese delegates to avoid another broadside from Mr Mickey Kantor, the US special trade representative, by staging a tactical retreat to the fairway. Now that Japan's political crisis has made it uncertain whether Mr Tsutomu Hata, the foreign minister, will come to Marrakesh, the contingency plan may not be needed after all.

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Another delegation looking a shade leaderless is Britain's. Neither Mr Michael Heseltine, president of the Board of Trade, nor Mr Richard Needham, trade minister, thought it worth coming to Marrakesh. Instead, the assignment has been left to Mr Tim Sainsbury, number three man at the department of trade and industry, whose job is not to do with trade but with industry.

A bit odd, considering all the fuss Mr John Major, the prime minister, made about the Uruguay Round being the Transcendent economic event of last year. But perhaps just as well given Mr Heseltine's well-advertised disdain for trade policy matters. Whitehall insiders describe as "embarrassing" his few bilateral encounters with top US trade negotiators, who were far better briefed on the details.

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If anyone has done better than Marrakesh out of the conference, it is France, which has called on old colonial links to win some handy contracts for equipment. "The French have really cleaned up on this whole event," says a senior diplomat who has been closely involved in organising the meeting.

One of the less successful results is the press room, where journalists are required to pay for telephone calls using French-supplied "smart cards". These can only be bought with cash and are consumed in vast quantities on international calls. They also have a nasty habit of running out during the computer transmissions which most print journalists use to send stories these days....

Back to basics in US clothes

By Michiyo Nakamoto in Tokyo

US frustration in trying to enter Japan's markets for its high-technology products, from cellular phones to cars, has confirmed suspicions that whatever the merits of the products themselves, the Japanese prefer to buy Japanese.

But when it comes to a somewhat less high-tech product, American brands have increasingly won the heart of Japanese consumers.

After years of being shunned as drab and of poor quality, American clothes are back in style in trendy Tokyo streets.

Last year the value of US apparel imports surged 55 per cent to $729.5m (£499.6m) from $472m in 1992, according to the Japan Textile Import Union. Compared with five years ago, their value has risen fivefold.

The popularity of US-made clothes has been helped by Japan's recession, which has encouraged a taste for cheaper products that offer value for money. For Japanese consumers accustomed to $100 price tags on T-shirts at prestige-conscious department stores and boutiques, a US-made version at one-fifth the price is a tempting alternative.

But at the same time the growing appetite for American fashion reflects a spreading change in lifestyles and values that is affecting Japanese buying patterns.

"Since the burst of Japan's economic bubble, there has been a growing trend to return to basics," says Mr Kazutoshi Yokota, editor-in-chief of Ryukoh Tsushin fashion magazine.

Amid the sobering atmosphere of the country's economic downturn, consumers turned away from the flashy styles that appealed to their nouveau riche frame of mind and began endorsing basic, casual, even grungey clothes.

One beneficiary of Japan's renewed interest in American styles, has been L.L. Bean, the US company that specialises in outdoor wear.

In the period from March, 1993 to February of this year, L.L. Bean's two shops in Tokyo made sales of about Y2.4bn (£15.8m), double their original forecast. The company, which is opening another outlet in September, expects sales to rise to about Y3.5bn this year.

To its surprise L.L. Bean found that its clothes appeal not only to people in their 30s and 40s, as it initially expected, but to all age groups from teenagers up to those in their 70s.

Mr Yokota says US designers who are becoming popular in Japan learnt a valuable lesson when the US recession forced them to move production overseas, cut costs and offer quality designs at affordable prices. As a result, their cost performance is among the highest in the world, he says.

Norway wins gas export deals

By Karen Fossli in Oslo

Norway has secured three contracts valued at an estimated NKr8bn ($1.1bn) to supply a total of 13bn cubic metres of natural gas to Britain, Germany and Spain.

The biggest of the three export contracts announced yesterday has been agreed with Mobil Erdgas-Erdol of Germany, which is to take 10bn cubic metres (10 bcm) of gas over an 18-year period, commencing in 1996.

Enagas of Spain is being supplied with close to 1 bcm of associated gas from Norwegian North Sea oil fields over a two-year period ending in March 1996.

But the £100m deal for Statoil, the Norwegian state oil company, and Norsk Hydro, Norway's biggest publicly quoted company, to supply Britain's ScottishPower with 1.7 bcm from the Froey field from the end of next year is expected to bring to a head a three-year conflict over imports of Norwegian gas by Britain which Norway claims are being blocked by the British government.

The impasse centres on a deal valued at more than NKr20bn agreed in 1991 for Norway to supply National Power, the UK utility, with 30.8 bcm of gas over 14 years through the Frigg gas pipeline.

The British government insists that a treaty covering the supply of Frigg gas to Britain through the Frigg pipeline will have to be amended in order for new supplies from Norway to make their way to the UK.

The Norwegians disagree and have privately expressed fears that the British government will not approve the deal because of the political sensitivities of importing foreign gas at a time when UK coal pits are being closed and because of indigenous UK gas which could meet domestic demand.

Under the terms of the Frigg treaty, only Frigg field gas can be transported through the Frigg pipeline. Frigg is expected to be emptied of gas in the next few years but minor volumes of the gas will still be flowing through the pipeline when ScottishPower begins to receive its supplies.

"We believe this contract to ScottishPower can be facilitated under the existing Frigg treaty. The ScottishPower contract proves there is a market in the UK for Norwegian gas," Mr John Ove Lindoe, a Statoil executive, said yesterday.

ScottishPower said the gas would be primarily used and marketed by Caledonian Gas, a subsidiary, and would help the company meet the demand expected when the domestic gas market is liberalised in 1996.

NEWS: INTERNATIONAL

Rwandan cabinet flees rebel push

By Leslie Crawford in Nairobi and Agencies in Kigali

Some of the last westerners being evacuated from Rwanda's capital by French paratroopers *Reuter*

Rwanda's five-day-old government fled the embattled capital Kigali yesterday as rebels fought their way into the city in an attempt to seize power.

"We are converging on Kigali from all fronts. Government soldiers are surrendering, but there is still heavy fighting in the city," said Ms Christine Umotoni, one of the leaders of the rebel Rwandan Patriotic Front (RPF).

Six days of ethnic bloodletting have left an estimated 20,000 people dead. There were fears that the conflict between Hutus and Tutsis, sparked by the death of President Juvenal Habyarimana, a Hutu, in an air crash last Wednesday, would engulf the entire densely-populated country in central Africa.

Most of the 2,000 foreigners living in Rwanda have been evacuated. The last French convoy left with about 100 French paratroopers and 80 refugees of various nationalities, including 20 Rwandan nuns. Belgium and France closed their embassies in Kigali yesterday.

The RPF said it would assist the evacuation by allowing the transit of road convoys through rebel-held territory. It ordered a temporary halt to the fighting along evacuation routes. The rebels, however, have rejected United Nations attempts to mediate a ceasefire in the capital. Rwanda's entire 19-member cabinet, appointed after Gen Habyarimana's death, were seen leaving the Hotel des Diplomates in downtown Kigali as the rebels moved into the capital. The government convoy headed south with a heavy escort of armed guards.

"It is our duty to stop the butchery in Kigali," Ms Umotoni said. But she could not predict how long the battle for the capital would last. "It depends on what kind of resistance we meet." It is the RPF's first attempt to take Kigali since the war began in 1990. The rebels, who are led by the minority Tutsis, are trying to broaden their appeal by calling on the Hutu majority to join them in government.

It is not yet clear whether this appeal will calm the fears of a distrustful Hutu community. But the rebels point out that the first victims of the bloodbath that followed President Habyarimana's death were members of his Hutu government. It is believed that Ms Agathe Uliwingiyimana, the prime minister who was a Hutu, and many of her cabinet colleagues were murdered by renegade members of the presidential guard because they backed a peace agreement with the Tutsi-led RPF.

"The peace accord is dead," Ms Umotoni said. "All the key government players in the peace negotiations have been systematically eliminated by the presidential guard."

Anarchy and civil war have filled its place. The 2,500 UN military observers, sent to Rwanda last October, have not intervened to halt the killing spree in Kigali. The UN says it does not have the mandate to protect Rwandan civilians.

Belgium searches its colonial soul

By Gillian Tett in Brussels

Mr Jean-Luc Dehaene, Belgian prime minister, insists there will be no "out of Africa" policy. But as more Belgian citizens were evacuated from Rwanda yesterday, political soul-searching has started in Brussels.

Amid fears that this week's massacre may have had a distinct anti-Belgian twist, with at least 16 expatriates having died in the violence, the government now admits it is re-evaluating its policies towards its former colonies, Rwanda and Burundi.

The process is likely to be painful. For since Belgium pulled out of Rwanda, which it administered between 1917 and 1962, it has been treading a foreign policy tightrope.

On the one hand, recognising that its colonial legacy could not allow it to abandon the country, Belgium has been keen in recent years to provide humanitarian support for Rwanda – with 1,500 Belgians in the country, Belgian nationals have dominated aid agencies in the country, while Rwanda and Burundi have absorbed BFr1bn (£190m) a year, by far the largest slice of Belgium's overseas aid budget.

On the other hand, Belgium's own historical role in the country – which saw it supporting the minority Tutsi group against the majority Hutus – has left it opposed to becoming entangled in the country's internal political disputes, in spite of calls that it should take a more active role.

In recent years, the Belgian government has preferred to operate under United Nations auspices, sending some 400 troops into Rwanda in the aftermath of the 1990 peace accord signed between the Rwandan factions in Arusha.

But as fighting has raged in the past week, local radio stations have repeatedly accused the Belgians of conspiring with the Tutsis, in support of the rebels now advancing on the capital Kigali. And panic-stricken reports from foreigners leaving the city have fuelled fears in Brussels of an anti-colonial backlash. Mr Francois Nagurukiyintwali, Rwanda's ambassador in Belgium, insists that these reports have been exaggerated.

And as Belgium's own coterie of African experts points out, the anti-Belgian sentiment is probably confined to a minority. Mr Filip Reyntjens, professor of Rwandan and Burundi studies at Antwerp university, believes that only a small group on the right wing of the Hutu-dominated political parties are actively anti-Belgian, although he concedes this sentiment is probably also shared by parts of the army.

Nevertheless, some Belgian politicians are calling for a complete withdrawal. Others, incensed at the sight of Belgian troops standing by in the face of brutal massacres, are insisting that the only a thoroughgoing intervention could guarantee peace.

The Belgian government has indicated that its paratroopers will probably withdraw once the evacuation is completed, but insists that either "abandonment" or full intervention is out of the question.

Officials stress that any policy re-evaluation is likely to take some weeks. In the interim the government is focusing its diplomatic efforts on the UN. Mr Willy Klaes, foreign minister, was last night due to meet Mr Boutros Boutros Ghali, UN secretary general, to discuss the future of UN operations in the country.

Israel and PLO agree on police and prisoners

By Julian Ozanne in Jerusalem

Israel and the PLO yesterday resolved two key security issues blocking the long-delayed implementation of Palestinian self-rule in the Gaza Strip and West Bank town of Jericho, but left many more problems outstanding for talks which resume on Sunday.

Both sides said in Cairo they had made substantial progress in recent days and had agreed the terms for a 9,000-strong Palestinian police force and a timetable for the release of 5,000 Palestinian prisoners.

On the economic track of negotiations Mr Avraham Shochat, Israeli finance minister, said in Paris he had reached agreement with the PLO on most sectors of economic relations between Israel and the future self-governed areas and expected to end talks next week.

Violence flared again, however, in the occupied West Bank where Israelis shot dead two Palestinians, including a pregnant woman, during clashes with stone throwers. In Ramallah Israeli soldiers imposed a curfew and attacked a Palestinian house with rockets before bulldozing it.

Under yesterday's agreements in Cairo, the first contingent of 6,000 Palestinian policemen will be deployed immediately after the two sides sign a comprehensive self-rule accord. Each will be armed with an automatic weapon.

The two sides also agreed that 5,000 of 8,500 Palestinian prisoners would be released by Israel in the coming weeks. Israeli negotiators refused to meet PLO demands for the release of some prisoners belonging to the Islamic extremist Hamas movement.

Yet to be agreed in Cairo are the security zoning arrangements for the Gaza Strip; details of the crossing points into the self-rule areas and rules for military operations and joint Israeli-Palestinian patrols.

The adjournment of talks for four days removed any chance of a breakthrough before tonight's deadline for completion of Israeli military withdrawal as set out in last September's peace agreement.

In Paris Mr Shochat said the two sides had finalised accords covering agriculture, industry and energy and were close to agreement on direct and indirect taxation. Problems still to resolve are Palestinian demands for a symbolic national currency, the rate of value added tax to be imposed; and details of import and export duties, labour, tourism and insurance.

Neither side has said yet when they will sign a final comprehensive agreement including economic, security and transfer-of-power issues. Continued delay in implementing the agreement and Israel's heavy-handed treatment of Palestinians has fuelled Arab disappointment and suspicion and strengthened the hand of extremist groups opposed to the peace process.

Mediation hopes help financial rand recover

By Mark Suzman in Johannesburg

The financial rand, South Africa's investment currency, yesterday staged a partial recovery from Monday's record lows, as the arrival of international mediators raised hopes of a solution to the fighting in Natal province ahead of all-race elections in two weeks.

The financial rand closed in London at R5.3350 to the dollar, its rise of 30.85 cents on the day recouping half of Monday's loss. However, the commercial rand, the main trading currency, continued to weaken, dipping 1.28 cents to R3.6053.

Distracted over concerns about the currency, markets had little initial reaction to news from the African National Congress that its economic plan for the first post-apartheid government, the Reconstruction and Development Programme (RDP), would cost R39bn over five years. It was the first time the ANC had put a price tag to its programme, but officials immediately sought to allay fears about the cost by claiming that the programme would be funded without raising taxes or foreign borrowing.

On releasing the seventh and "final" draft of the RDP programme, Mr Trevor Manuel, ANC economics head, said the RDP could be funded by the redirection of government funds away from areas like defence to needs such as housing, and by improving productivity in the civil service.

Meanwhile Mr Nelson Mandela, ANC president, was hopeful of solving the country's constitutional dispute, as seven international mediators – including Lord Carrington, former British foreign secretary, and Mr Henry Kissinger, former US secretary of state – arrived in South Africa.

Camdessus casts a line to Algiers

Francis Ghilès on a $1bn IMF gamble to save Algeria from 'creeping Afghanisation'

Mr Michel Camdessus, managing director of the International Monetary Fund, has taken a huge gamble. So has General Liamine Zeroual, the Algerian head of state. If they fail, neither the IMF nor the Algerian army will have another chance to save north Africa's largest country from a fate which a senior US official likened to one of "creeping Afghanisation".

Mr Camdessus has asked the board of the IMF to extend a $1bn (£680m) one-year standby loan to Algeria, which the board is expected to approve by the end of the month. He has called on Algeria's foreign creditors to follow the IMF and provide the country with a further $8bn-$9bn which it will need to pay its international way this year.

Of this total, $3.5bn would come from the rescheduling of the principal repayments of debt owed to its sovereign creditors, who are due to meet at a Paris Club meeting in mid-May; $1.5bn would come from the World Bank, African Development Bank and Arab Monetary Fund loans; $1bn from the European Union; and the balance from export credits which would be maintained at last year's level.

Algeria has already been asked to take its medicine. Three weeks ago the price of nine staple foodstuffs – including flour, bread and milk – were increased by between 25 and 100 per cent. This followed similar rises in the cost of petrol and domestic fuel. Other increases are intended to follow.

Algerians hope the IMF chief's judgment is better vindicated by events than it was last time

The dinar has been devalued by 40 per cent and interest rates raised. Measures to liberalise foreign trade are expected this week. A later stage in the process will require state companies to shed excess labour.

Mr Redha Malek, the prime minister since last August, announced on Monday he was resigning. Foreign observers do not agree on why. It may be that he disagreed with the policy now openly pursued by Gen Zeroual of trying to talk to those members of the banned fundamentalist Islamic Salvation Front (FIS) who do not wish to see their country slide into total anarchy.

It may be that the head of state wanted to replace him with a technocrat who carries no political weight and whose job is that of the surgeon, a man who can be disposed of easily if the going gets rough.

Mr Mokdad Sifi, who is taking over, certainly fits that description. He comes from Tebessa, a town close to the Tunisian border which has provided many key figures to the Direction Générale de la Securité Nationale, the fount of much power in Algeria over 30 years.

Days before Mr Malek's departure, Mr Camdessus had expressed, in an interview with Algerian state television, much enthusiasm and hope about the process of economic reform upon which he felt Algeria was embarking.

Many Algerians hope the IMF chief's judgment is better vindicated by events than it was after the last agreement with the Fund. That accord, signed in June 1991, was followed promptly by the dismissal of the then reformist prime minister, Mr Mouloud Hamrouche. Mr Camdessus heaped praise on his successor, Mr Sid Ahmed Ghozali, whose policies went on in effect to destroy the economic reforms to which the IMF had just given its imprimatur.

The position today is incomparably worse. Some 4,000 Algerians have died since elections, which the FIS was poised to win, were suspended in January 1992. Fierce repression has not prevented large areas of Algeria, including some cities, from slipping out of the state's control, notably at night. The hardline Islamic Armed Group is committing acts of terror on ordinary Algerians and has targeted foreigners, many of whom have fled the country.

Although this has helped bring Algeria's economy to its current state of semi-collapse, a main factor has been the fall in world prices of hydrocarbons, which account for 90 per cent of the country's foreign income. Foreign debt repayments would, in the absence of an agreement with the country's western creditors, absorb virtually all Algeria's forecast $9bn income this year.

As they consider the possible fate of a reform package now being put together, the country's foreign creditors are, in the words of one senior European banker, "functioning on a wing and a prayer".

So are 26m Algerians. As one sardonically commented: "The difference is that we are risking our lives while western countries are only risking their money."

هكذا من الاهل

PEOPLE

Soar: consequences of demotion

Philip Soar has resigned as a director of Blenheim Group, the exhibitions organiser whose share price has almost halved over the past year, five months after he was demoted from chief executive.

Soar has been widely blamed for the collapse of Blenheim's reputation in the City and many observers believed his final exit was only a matter of time. "He has been in the departure lounge since last year," said one City analyst. It is understood that several of Blenheim's senior managers pressed for him to go. One close observer of the company says Soar was keen to stay on and is bitter at the way he has been treated: "He feels that he has been blamed for something that was not his fault."

In November, Soar was replaced as managing director by Staffan Svenby and demoted to the new post of director of planning and strategy.

The company's statement yesterday thanked Soar for his "major contribution" and wished him "every success in the future".

Soar was brought into Blenheim in 1990 by Neville Buch, the company's chairman and co-founder, who was a personal friend. After a glittering career at publishers Marshall Cavendish – he was managing director by the age of 25 and also found time to write books on football – Soar had set up his own publishing venture but was then looking for "a new challenge".

"It soon became clear it was a mistake," says one observer. "Phil turned out to be much more at home with his computer models than as a hands-on manager."

These models proved Soar's undoing when they failed to predict the impact of recession on Blenheim's important American and French operations. Analysts, who based their forecasts on Soar's optimism, blamed him when they were forced to slash their predictions last year.

It is thought that Soar, 46, will get £300,000 to cover the rest of his one-year contract but will receive no further compensation.

Blenheim announced a number of other moves including the promotion of Steve Monnington, company secretary, to director with responsibility for developing the group's new markets in Italy and East Asia. Peter Begg, legal director, takes over as company secretary and David Pegler becomes managing director of Blenheim's UK business, replacing Michael Fletcher, who is returning to the financial services industry.

Donald Gordon, the South African entrepreneur, is loosening his ties with Guardian Royal Exchange, the UK composite insurer with which he has been associated for the past 30 years. He retires as a non-executive director after the annual general meeting in May but will remain chairman of GRE's South African subsidiary, Guardian National.

Gordon, who is GRE's second longest serving director after the chairman, founded South Africa's Liberty Life in 1958. The British company provided Gordon with financial backing to expand his South African business in his early years and later established its own South African operation, Guardian National.

Gordon will be 64 in June and GRE says that he has decided to curtail some of his activities in order to "concentrate on the strategic issues pertaining to the Liberty Life group".

■ Sir Roland Smith is retiring as president of EQUITABLE LIFE Assurance Society and will be replaced by John Sclater, chairman of Hill Samuel Bank, Foreign & Colonial Investment Trust and Berisford International. Also retiring as non-executive directors are Barry Sherlock and Sir Christopher Waites; coming onto the board are Jennifer Page, chief executive of English Heritage, and David Wilson, chairman and chief executive of Wilson Bowden.

■ Peter Eyre has been promoted to UK director of broker operations at AMERICAN LIFE ASSURANCE COMPANY.

■ Roger Peek, formerly treasurer at British Steel, has been appointed md of the IRON TRADES INSURANCE COMPANY where he had been a non-executive director since 1992.

■ Peter Allen has been appointed a director of EDGAR HAMILTON.

Finn takes place in Yardley saga

Yardley Lentheric, the privately-owned UK perfume and cosmetics company, has recruited a Unilever veteran as managing director. Richard Finn was until January head of Chesebrough Ponds of the US, a Unilever subsidiary producing skin creams and other personal products. A Unilever man of over 30 years' standing, he has worked in the UK, the US, France, India and Nigeria.

Finn's appointment raises a question about the direction Yardley is taking. Although it operates internationally, Yardley is essentially a UK company, based in Basildon in Essex. Its history is chequered: owned by the tobacco giant BAT until 1984, it was then bought by the drugs group Beecham. In 1990, it was handed on to the US venture capitalists Wasserstein, Perella.

In the same year, Wasserstein, Perella bought Maybelline, a somewhat larger US personal products company. In 1992 it floated Maybelline on the US stock market, retaining a controlling stake. Some nine months ago, plans were announced for Maybelline to acquire Yardley. According to Yardley, nothing has yet been decided, though the plans remain in hand.

Where Finn will fit into the new arrangement is not yet clear. In the meantime, Yardley chairman Randall Weisenburger – who has been standing in as interim managing director since last September – says sales in 1993 were 12 per cent up on the year before.

■ Tony Leonard, formerly finance director, has been appointed md of POWER CORPORATION.

■ Niven Ballantyne, former finance and development director of Bass's entertainments division, has been appointed finance director of NORTHERN LEISURE following Kenneth Loukes' decision not to relocate to Preston.

■ Hamish Bryce, chief executive of THORN LIGHTING, is also appointed chairman.

Cotterill to chair Electrocomponents

Sir Keith Bright, 62, non-executive chairman of Electrocomponents, the electronic, electrical and mechanical distribution group, is retiring from the company – but not from active business life – after the next annual general meeting, in July. His replacement in that post is Roy Cotterill, 58, who spent some 25 years with GEC and is currently chairman of Vosolis.

Sir Keith, the former chairman and chief executive of LRT who resigned following the critical report in the wake of the Kings Cross fire, has also been chairman of Brent Walker for the past 14 months. He has spent eight years on the board of Electrocomponents, the past five as chairman on a fixed, five-year contract, the expiry of which coincides with his retirement. He says that his intention was always to do no more than five years, which he regards as a "decent stint" as the chairman of a company.

"The company had gone very wrong and my job when I came here was to change the strategy and get things right. It had diversified into such things as computer peripherals and lighting, away from its core businesses. I am leaving now that things are in much better shape," says Sir Keith.

In his time with GEC, Cotterill's posts included running the company's Far East operations from Australia. He is also deputy chairman of Division Group and a director of Longwall International.

Christopher Lorenz begins a series on ownership by looking at how several former Plessey companies are prospering as part of Siemens

Does nationality really matter?

Yachting enthusiasts who flock to the Isle of Wight this year will notice a strange new structure sticking into the sky above the famous harbour town of Cowes.

At a quick glance, it looks like a factory chimney. But perceptive visitors will guess correctly from its silver-grey colour that it has something to do with high technology. It is far more than that: a symbol of the rebirth of a British company under German ownership – the antithesis of what some people fear could happen to the Rover car group under its new parent, BMW.

The 100ft tower is a new type of radar test facility, the first of its kind in the world, built by what used to be part of Plessey, one of the UK's leading electronics groups. The Cowes operation was one of several Plessey units that were bought outright by Siemens in 1989 after Plessey was broken up jointly – and controversially – by the German company and GEC, Plessey's main domestic rival. The businesses now have joint sales of £350m, and almost 5,000 employees, more than half of whom work in research and development.

Roger Barnes, an old Plessey hand who is director of the Cowes site – which forms part of the largest ex-Plessey company, now called Siemens Plessey Electronic Systems – has no doubts about what would have happened if the German group had not bought the operation. "It would have been awful," he says. "One has to question whether we'd still be in business."

His reasoning is simple: that the new German parent is showing a commitment to the former Plessey businesses, and a readiness to invest long-term, that was all too lacking under British ownership. Siemens certainly is committed: Electronic Systems has run a loss since 1990, although it will be back in the black this year.

In the main, Siemens has handled the aftermath of the takeover with great care. There have been some strains over its much more structured and deliberate approach to management, and over various other Anglo-German cultural differences. But, with a few exceptions, the ex-Plessey executives are full of praise for the way their new colleagues and masters in Munich have behaved towards them.

That behaviour has been conditioned by several things, including the lack of virtually any overlap between Siemens' operations and those of Plessey. But another factor has been the Germans' genuine surprise at the high level of engineering skill which they found in Plessey. Jurgen Gehrels, the chief executive of Siemens UK, attributes the success of several of the businesses since the takeover to "the ingenuity of the people, and their pragmatism". This combination, plus the relatively low cost of engineers in Britain – little more than half the German level – has also prompted Siemens to shift some contract research work from Germany to one of the units.

But it is the gulf between short-termism and long-term thinking that, to the managers involved, is the single most important lesson of the takeover.

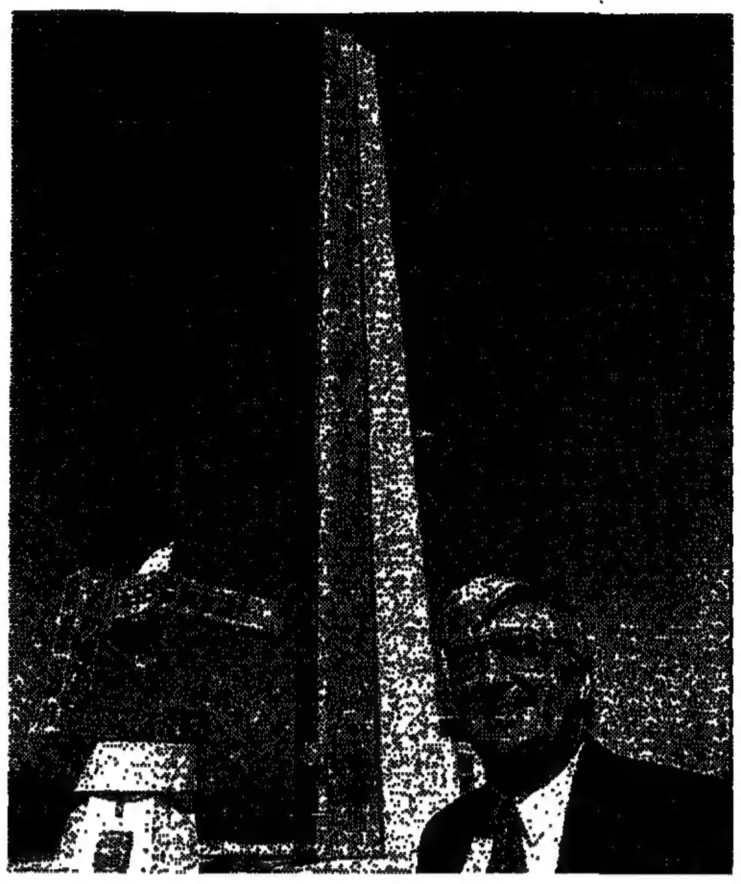
Clive Dolan, head of the whole electronic systems company, is just as damning about his former employer as Barnes. "What Plessey did most of the time was respond to the City of London's need for quarterly profit increases," he says. "The British electronics industry hasn't done well globally because they've had their eyes on the wrong ball. Sensible long-term plans were disrupted constantly by short-term considerations."

The new £1.5m radar test tower at Cowes – considered vital by Siemens for all sorts of reasons – was first proposed in Plessey days as long ago as 1980. It was rejected, says the engineering executive at Cowes, Bob Barton, because it could not meet Plessey's normal criterion of a two-year payback; instead, five years was thought likely under British accounting conventions. Under Siemens' more cautious approach, it is now expected to take at least seven years.

"Siemens recognises that if you're serious about a market, you go into it properly – to win, not just to turn up at the game," says Barnes.

The test tower is one of three key investment projects on the Cowes site alone which owe their existence to the change in ownership.

The second is a £5m design engineering centre, which was approved just after the takeover and finished in 1991. Under Plessey, "we'd tried again and again to get approval," says Barnes. The company refused, so more and more engineers had to be squashed into portakabins – which Siemens considers "is not the way to motivate people to do good work," as Gehrels puts it.



Tony Andrews

Roger Barnes: 'The degree of autonomy we have is vastly bigger than before'

To Plessey's traditional fear that such an investment might have bankrupted the Cowes unit if orders fell off, Barnes says Siemens' reply would be "if you've got that sort of worry and might let the business go bust, then you shouldn't be in it in the first place".

The third Cowes project, which is nearing completion, is a £5m outlay on computerised design and engineering equipment over five years. This has given each of Cowes' 250 engineers their own computer-aided design or engineering station; under Plessey, each machine had to be shared between eight of them.

It is not only on capital investment that Plessey's spending was inadequate. "Some of the businesses had not seen a penny of the company's own R&D money for years – it only spent government funds," says Gehrels. The rate of internally-funded R&D has been doubled since the Siemens takeover, and will reach 15 per cent of this year's £116m total R&D expenditure, itself a third up on 1989.

Apart from Barnes' air defence business – which has grown in spite of government spending cuts – the most obvious beneficiary of Siemens' commitment to technology has been a unit which develops and makes air traffic control and management (ATM) systems.

Run directly by Dolan until his promotion last year, the order intake of its UK operations alone has soared from under £15m in 1989 to £131m in 1993, taking the unit "from nowhere to number two in Europe", according to Dolan. That has required about £30m of investment since 1991.

"This wouldn't have happened under Plessey – or GEC," he stresses (he is fiercely critical of GEC's performance in world market terms). Neither company, he argues, would have had the commitment to building a global market position, including the willingness to price accordingly and carry losses for a time. Like the electronic systems company as a whole, the cost of ATM's expansion has been a (planned) loss.

"Plessey *talked* about being a global player, but was amateurish," says Dolan. "It was doing things on a shoestring, without any realistic expectation that they would work." By contrast, he says Siemens "is a very adult company – very sensible and cerebral".

Dolan's early success with the unit led Siemens in 1991 to designate his south London base, rather than a German location, as the global headquarters for its ATM business. In one sense, this was an obvious step, since about 80 per cent of its total ATM revenues of £180m come from the UK unit – including heavy exports – with the German end very much the junior partner. But the move was nevertheless significant for a group which still ran almost all its business units from Germany.

An expansive man, Barnes revels in the fact that "the degree of autonomy we have, within approved parameters, is vastly bigger than before – the Germans are more fastidious, but also more trusting".

All the same, he says takeovers are "difficult when you've been fiercely independent for decades". There is some sensitivity – tinged with admiration – at Cowes about Siemens' insistence on involvement in the detail of even things such as local building decisions; Barnes says Siemens has detailed expansion plans for each site around the world for the next 20 years or more.

Especially frustrating, says Richard Wyatt, Dolan's manufacturing director, was Cowes' loss of a planned investment – a £200,000 machine – to a Siemens factory in Belgium because he and his colleagues had not yet been familiarised with the parent company's tough policy on duplicate investments. "We didn't know how to debate our corner – we didn't sell it properly as a core investment for us," Wyatt says.

There were also early strains when Siemens insisted on using its usual German consultancy on a British cost-reduction project. Language problems and other difficulties produced a set of faulty recommendations. Now, things are different: on a current productivity exercise, Siemens has not insisted on uniformity, and Wyatt and his colleagues have selected a consultancy themselves.

Such strains would have been lessened, says Barnes, if Siemens had moved more quickly to get him, Dolan and all their colleagues over to Germany for an "inter-cultural training" course with their opposite numbers. "It would have avoided a lot of difficulties – ways of approaching things that were 180 degrees apart," he says.

In the event, such a course was held a full three years after the takeover, in late 1992. It certainly broke the remaining ice. Dolan recalls that it showed that the Brits thought the Germans were honest but intolerant, while the Germans thought the Brits were both intolerant and not overtly honest: they said one thing, but meant something else.

Anyone familiar with Anglo-German differences will recognise these as standard stereotypes – but accurate ones. Yet that recognition is of no practical help to two companies striving hard to work together – even if, as with Siemens, German executives are tolerant enough to break into their colleagues' language whenever the need arises. To Dolan's embarrassment, this still happens even when there is just one Briton in the room with 20 Germans. Wyatt admits that "not enough of us have found time to do a total immersion course. We need to – it's critical".

Dolan, who already speaks goodish German, is taking further lessons. "One observes that all Siemens' main board directors are German," he observes wryly.

The second article in the series will appear next Wednesday.

Moving jobs in the EU

Your partner has just got a job in Hamburg and you are wondering whether you can find work there too. You are fed up working as an architect in Rotherham and someone suggests to you that you should practice your trade for a couple of years in Barcelona. What do you do?

The European Commission, with its grandiose plans for monetary and political union, has often been accused of failing the European citizen at more basic things such as enabling freer movement of labour. From this month things might be improving.

The free movement unit, inside the Commission, has just established a database on job vacancies in all 12 member states combined with information about living and working conditions.

Something called Eures (the European employment services) has existed for some years exchanging information on job vacancies between national employment services in rather a haphazard way.

Now the service will be much more comprehensive and will be supported by a group of 250 Euro-advisers. It will also now be possible to go on a list of job-seekers if you are looking for work in a specific region.

Despite the gradual removal of obstacles to mobility within the EU – most recently the principle of mutual recognition of qualifications has been accepted – it is still easier in theory than in practice.

The number of EU citizens working in another EU country is only 2.5m – 1.5 per cent of the working population – and has been falling in recent years as poorer countries have become richer and attracted back their former immigrant workers.

Eures is hoping that more professional people will start to use the new expanded service. Hitherto the greatest demand in Europe for British employees has been for skilled manual workers, mainly in construction.

David Goodhart

Scene from 'Lipstick on Your Collar' by Dennis Potter (right), who hopes to complete two more TV dramas before succumbing to cancer

Television/**Christopher Dunkley**

Final act for the man of drama

Once upon a time David Mercer could have been a contender for the title of "Best Television Dramatist" but he died before we could ever be sure of what his best might be. Today the only person who could compete with Dennis Potter for the title is Edgar Reitz, creator of *Heimat*, yet his strength lies in narrative and historical span. Reitz's work is literal and ultra-realistic. Potter stands alone and supreme as the man who has mastered television and shown it to be a medium which can challenge print, theatre and cinema in the exploration not only of the human condition but of the mind. I consider *The Singing Detective* to be the greatest piece of original fiction ever created for television: Proustian in its detail, astonishing in its originality, superbly entertaining.

Last week Potter came before us in the most extraordinary television programme – an 85 minute edition of *Without Walls* on Channel 4 – to say that he is dying of cancer, expects to be dead within weeks, but is surviving on a diet of liquid vitamins, morphine and cigarettes. He is racing the clock and the angel of death to complete two television dramas, one for the BBC, the other for Channel 4, one about cryogenics, the other about virtual reality, which he sees as closely connected and which he hopes will each be shown on the originating channel and then repeated on the other. The awful, and in a way wonderful, thing about this unique interview (Melvyn Bragg at his best) was that, despite moments of strain, Potter looked better and even sounded happier than he has seemed for years. Is there really no hope that he might survive? He has been embattled so many times and overcome so much that we look to him for the sort of miracles that have been at the centre of much of his work.

*

Friday nights now bring two modern American animated cartoon series to British television: *Beavis And Butt-Head* is screened at 11.35 on Channel 4 and *The Ren And Stimpy Show* at 12.40 on BBC2. Midnight is not usually considered cartoon time, but both these series have been criticised for their violence and their potentially bad influence on children. Of course cartoons have always attracted such strictures: Betty Boop (b. 1915) was too sexy, Tom and Jerry (b. 1937) too violent. What really sets these new American offerings aside from their predecessors is that they are utterly charmless. Last Friday's *Ren And Stimpy* was a pointless story about selling rubber nipples. The funniest line in 30 minutes was "The Lord loves a hanging, that's why he gave us necks". *Beavis And Butt-Head* are American teenage boys who ogle the female talent on the pop video network MTV (much of which fills up the time in the cartoon) going "Whooorrr! Loogadat!" every time there is a glimpse of breast or thigh. The funniest thing about it is the pretence that this might, somehow, be seen as social satire. Neither series has a trace of talent. You would need to be a very backward teenager to be amused by either.

The demand for "good news" programmes is wrong headed. We could certainly do with more positive items within the existing news programmes, but the idea of bulletins announcing how many houses did not burn down yesterday is a dead loss. If your real aim is the feel-good factor then what you need is more programmes like *The Young Musician Of The Year*. The final on Sunday provided three hours of inspiration and sheer pleasure. The young talent on display was astounding – not only among the soloists but from the members of the National Youth Orchestra who played for nearly three hours without ever sounding like a "youth" orchestra. The right competitor won, Natalie Clein's performance of the Elgar Cello Concerto owing nothing to the so often overwhelming presence of the shade of Jacqueline du Pré. Somehow you knew that as they left the concert hall these teenagers would not be tearing aerials off cars and throwing cans of lager at one another. Three cheers for the BBC.

*

Getting comedians Hale and Pace to star in a police detective series is a bit like getting Esther Rantzen to give the commentary on the Grand National: no doubt she could take a stab at it, but why bother when Peter O'Sullevan is so good, and Rantzen is so much better at what she already does? Having said which, Hale and Pace are not the worst things about *A Pinch Of Snuff*. This silly and unconvincing story about blue movie makers in Harrogate has been produced by people who seem to believe in one of the most famous of the modern urban myths: "snuff movies". The assertion is that in some violent films the victims really are killed for the sake of the cameras, though nobody has ever actually identified one, of course. Here the idea is not a genuine death but – wait for it – a genuine broken jaw (hence a *pinch* of snuff, presumably). It sounds so ludicrous that those who did not watch it may suspect this is really just another comedy vehicle for Hale and Pace. Would that it were.

*

Those who used to doubt whether women could ever succeed as comedians must surely have had their minds changed in the last 10 years. The roll call has grown and grown: Maureen Lipman, Victoria Wood, Dawn French, Jennifer Saunders, Josie Lawrence, Ruby Wax. However, while all these women are outspoken and several are on the large side, it is not enough just to be fat and loud-mouthed – you also have to be funny. This is a subtlety that seems not to have filtered through to Jo Brand or those who keep on putting her on television. Someone should have taken her gently aside after the opening episode of *Through The Cake Hole* and explained that while she, in her condition, may be reduced to near hysteria by the presence of the word "cake" in Pontefract cakes, cow cake and Kendal Mint Cake, the rest of us find the bare recital of such a catalogue remarkably unfunny.

The current BARB figures show the BBC with just a 40 per cent share of the week's viewing. You have to go back to January 1985 to find a figure lower than that (39.5) and in those days the BBC had neither *EastEnders* nor *Neighbours* which, today, give them their top seven programmes for the week. ITV and Channel 4 take a 52.7 share and "Other Viewing", meaning cable and satellite, achieves 7.3 for the second week running, a figure bettered only once: 7.4 in August last year. The BBC is still worth the licence fee three times over, but it is as well to keep an eye on such matters.

Theatre/**Andrew St George**

'Rope' regains its reputation

Patrick Hamilton (1904-62) wrote *Rope* in 1929, a psychological thriller braided into social comedy, taut and tense at the close. Hitchcock's bad 1948 film damaged the play, but not so Keith Baxter's excellent revival, now at Wyndhams Theatre after opening at the Chichester Festival last year.

From the crashing discords and complete darkness, the play makes compulsive viewing. Stage time and theatre time are identical. Hamilton gives us two and half hours in the life of two Oxford undergraduates, Brandon and Granillo, who have just murdered their friend Ronald. The opening – three naked men, one dead – gives way to a wonderful scene in total darkness, the actors detected only by their glowing cigarettes. It has the nerviness of *Macbeth*, post-Duncan, and the scariness of *Psycho*, pre-shower.

The murder is a crime of vanity. Brandon and Granillo hide the body in a chest, throw a tablecloth over it, and invite the victim's father, aunt and assorted friends to dinner: "You sit at the head." But Rupert, a louche free-thinking poet, begins to suspect. Before Brandon and Granillo can make off to Oxford with the body, Rupert confronts them, and wrings a confession. Will the free thinker enjoy the thrill of a healthy crime, too? Will he blow the whistle?

Hamilton's writing is everywhere poised, the stage directions punctilious: "He responds vaguely, as one who has only half understood". But he also makes psychological sense of the "foul, lewd and infamous jest", like a good Jacobean horror. The play moves the thriller genre into drama, but does so by avoiding the whodunit mystery formula, because the murderers are flaunting their crime. Here, every word comes out of the dramatic situation on stage.

The direction (Keith Baxter) serves the purpose exactly. Each time new information arrives, the situation and therefore the characters change. Simon Higlett's set, skewed and twisted, keeps the intimacy of the original three-sided production at Chichester; at the Wyndhams, real life comes and goes through the door at the back of the stage, making the rest of the theatre into a big conspiracy. The subtle lighting (Bill Bray) changes only when the actors change it. The acting of the three principals keeps to the changing subtleties of Hamilton's plot. They maintain a delicate triangle of power, passion and guilt. Tristan Gemmill as Brandon finds bluster and assertiveness in the character, while the surlier Granillo (James Buller) drinks his way into a crisis of nerve.

Anthony Head as Rupert is all fancy and frolic, a cynical creature already world-weary and bored, but witty enough to know it. On the ten commandments: "Of course I honour my parents. I send them a telegram of congratulations each year on my birthday." The murderers will hang on his word. His is decadence forced into moral standards by a specific case. Head has this character pinned down: fiddling, twitching, clumsy at dinner but deft in conversation.

Around him the rest of the cast twitter through the dinner party and leave when they should. Richard Warwick as the victim's father adds *gravitas* while Dawn Keeler as his aunt removes it. In all, a fine ensemble performance, and a reminder that Hamilton's reputation – he wrote *Gaslight* and *Hangover Square* – should hang on more than *Rope*.

At the Wyndhams Theatre

Recital/**David Murray**

A beautiful baritone

Nathan Berg wields, at the moment, a remarkably beautiful baritone voice. I put it that way not because he faces some imminent risk, but because this Canadian singer – from Saskatchewan, like Jon Vickers – is only 25 years old. Like all the most promising voices these days, Berg's has been trained up (at Banff, Aspen, Versailles and the Guildhall School) to a precociously serious level of interpretation. Unlike most, he still boasts a richly "natural" timbre: vital, warm-blooded, affecting and stirring.

There is no telling where well-schooled vocal art takes over from the born-lucky instrument. Equally, however, there is no knowing whether the youthful bloom will mature into another kind of appeal or just fade away, leaving a duller ring behind. Think of Olaf Baer...! "At the moment", then, Berg's singing should give intense pleasure to any (Western) lover of the human voice.

The glory of his true baritone lies now in his middle voice, plangent and splendidly direct, with a solid, satisfying complement toward the bass end. Remarks overheard during the interval at the Wigmore Hall on Monday suggested that he is really a bass-baritone. Not so: the tessitura of real bass-baritone stuff lies rather below Berg's most vibrant range. Nevertheless, his top notes do not open easily yet – though in soft head-voice he produced lovely sounds, seamlessly matched to his virile mid-register.

He chose an eminently serious programme: familiar Brahms, lusty Richard Strauss and Mahler's Rückert *Lieder*, but also Wolf's dark *Michelangelo* songs, Schoeck and Jacques Ibert, and some unfavoured Duparc. Though his German and his French were irreproachable, fluent beyond mere phonetics, the sense of each song's burden remained a bit general; we wanted more phrases lit up immediately and spontaneously.

Berg likes generous room to expand in, where swifter concision might strike better sparks in him. He needed a less subservient accompanist than Julius Drake – excellent in Ibert, but otherwise too languid for his singer's good, and tediously indulgent with epilogues – to chivvy him along. Nothing concentrates an interpreter's mind like having to make his effects register in a limited space.

Libraries go up for grabs

Would you like to run a library? If the idea appeals, Brent, the north London council, would be delighted to hear from you. Over the next few weeks it is advertising for bookish entrepreneurs to take over two of its libraries, Preston and Kingsbury.

It is one of the first concrete consequences of the government's determination to put the running of libraries out to competitive tender. Brent has embraced the idea with enthusiasm and will give the winner of the contract around £200,000 a year to cover the wages of the dozen or so library staff, who come with the package, and for acquiring stock.

The idea is that the new owner, who will have five years to exploit the libraries, will energise the operation, drawing in new customers and increasing their approval. He, or she, will have to offer a free book service, but there is money to be made from renting out CDs and videos, or exploiting the premises to set up a book shop, café, or art gallery.

Frank Quigg, director of Arts and Libraries in Brent, is a great enthusiast for letting in market forces, and the 12 libraries in the borough have already been turned into independent fiefdoms, with managers, the new name for librarians, in control of the budgets. According to Quigg this has increased customer numbers by 25 per cent and reduced annual running costs from £8.5m to £6m, mainly through shedding 70 administrative posts at the Town Hall.

It has also improved the service. The main Willesden Green Library, for example, opened on Sundays in the run up to the summer exams, and other libraries offer story-telling sessions aimed at one parent families. But until now the libraries have remained under ultimate Brent control. Over the next year or so all the libraries will be put out to tender, usually in groupings of two.

The problem is that no commercial operators have run a local library service before. Quigg is making a play for book shops, for management consultancy groups, for retired librarians, for leisure companies, for anyone.

He admits that there is little profit to be made from Preston and Kingsbury Libraries at the moment, but Kingsbury is scheduled to relocate into a new leisure complex, complete with swimming pool, restaurant and retail outlets, which should boost its current 79,000 clients considerably. And, most interesting of all to prospective investors, the government is committed to making compulsory competitive tendering a way of life. These two north Brent branch libraries could be the pilot study for a great new market leader, UK Libraries Ltd, operating throughout the land.

Quigg also admits that the most obvious winner of the first public competition will be the existing staff of the two libraries, who are putting together proposals. They have chosen to operate as an autonomous company while staying as council employees. But if Waterstones, or First Leisure, or Price Waterhouse shows an interest Brent might be tempted. After all, it is the bid which is both feasible and economical that will win the contract.

There will be worries that any new management at the libraries will play down its mandatory role, issuing books for free, in favour of money making propositions. The council's determination to regulate its tenant may not be as great as its desire for the experiment to succeed.

A much bigger concern is that compulsory competitive tendering in the library service is a wheeze of the current government, which has selected sympathetic councils to try it out, but it is much opposed by the Labour Party. On May 5 Brent goes to the polls, but Quigg believes that if Labour does take control it will let the pilot scheme go ahead. Re-establishing strong central control over the libraries would be costly and unpopular.

So at the moment anyone can play with the idea of running a library: just send suggestions to Brent.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

■ BONN

Oper The main event this week is the first night on Sun of a new production of Tosca, staged by Gian Carlo del Monaco and conducted by Eugene Kohn, with a cast led by Larissa Shevchenko (repeated April 26, 28). Repertory also includes Les Contes d'Hoffmann, Lortzing's Der Wildschütz and Valery Panov's production of Prokofiev's ballet Cinderella (0228-773667)

■ COLOGNE

Opernhaus Tonight, Sat and next Tues: James Conlon conducts Anthony Pilavachi's new production of Peter Grimes, with cast headed by Ben Heppner, Elrian James and Victor Braun. Fri, Sun: Yevgeny Onegin with Galina Gorchakova as Tatyana. Next Wed: revival of Ariadne auf Naxos (0221-221 8400)
Philharmonie Tonight: Berlin Philharmonic Soloists. Tomorrow: Hagen Quartet plays string quartets by Mozart, Lutoslawski and Beethoven. Fri: Charles Dutoit conducts Montreal Symphony Orchestra in Ravel, Szymanowski and Tchaikovsky, with violin soloist Chantal Juillet. Sat afternoon: Helmut Froschauer conducts Cologne Radio Symphony Orchestra and Chorus in sacred works by Beethoven and Bruckner, with vocal soloists including Sabine Hass and Jard van Nes. Sat evening: Justus Frantz is conductor and piano soloist with Schleswig-Holstein Festival Chamber Orchestra in a Beethoven programme. Next Tues: Haydn's Creation (0221-2801)

■ COPENHAGEN

Royal Theatre Tonight, Sat: Hans Brenaa's production of Coppelia. Tomorrow, Mon, next Wed: Paavo Berglund conducts Dieter Kaegi's new production of Fidelio, with casts including Stig Fogh Andersen, Poul Elming and Tina Kiberg. Fri, Tues: Così fan tutte. Next Thurs: first night of new John Neumeier ballet production, set to music by Mahler (tel 3314 1002 fax 3312 3692)

■ DRESDEN

Semperoper Tomorrow: Ariadne auf Naxos. Fri: George Alexander Albrecht conducts first night of Steffen Piontek's new production of La clemenza di Tito, with cast headed by Hans Peter Blochwitz and Annegger Stumphius (repeated April 18, 27, 30). Sat, Tues: Harry Kupfer's production of Handel's Belshazzar, with Iris Vermillion and Jochen Kowalski. Sun: ballet mixed bill (0351-484 2323)
Kulturpalast Sat, Sun: Günter Neuhold conducts Dresden Philharmonic Orchestra in works by Mendelssohn, Bartok and Brahms, with piano soloist Emma Schmidt (0351-486 6666)

■ FRANKFURT

Alte Oper Tonight: Maurice Jarre conducts Israel Philharmonic Orchestra in his own film music. Tomorrow, Fri: Dmitri Kitaenko conducts Frankfurt Radio Symphony Orchestra in Tchaikovsky's Violin Concerto (Dmitri Sitkovetsky) and Manfred Symphony. Sat: Peter Falk conducts South West German Radio Orchestra in an operetta concert, with vocal soloists. Sun morning, Mon evening: Sylvain Cambreling conducts Frankfurt Opera Orchestra in Mendelssohn's oratorio Elijah. Tues: Igor Oistrakh violin recital. Tues (Mozart Saal): Hagen Quartet plays Shostakovich string quartets (069-134 0400)
Oper Tonight, Sat: Hans Zender conducts Veit Volkert's new production of Peter Cornelius' comic opera Der Barbier von Bagdad (in repertory till May 13). Sun, Mon, Tues, Wed: Russian ballet programme from Berlin (069-236061)

■ GOTHENBURG

Konserthuset Tomorrow, Fri: Jesus Lopez-Cobos conducts Gothenburg Symphony Orchestra in Brahms' Violin Concerto (Maxim Vengerov) and Corigliano's First Symphony (031-167000)
Stora Teatern Fri, Sun: Elisabeth Erikson sings Poulenc's La Voix humaine, staged by Asa Melldahl, designed by Tazeena Firth, conducted by Cecilia Rydinger Alin. Thurs: Robert North's ballet The Russian Story, music by Tchaikovsky and Shostakovich (031-131300/031-136500)

■ HAMBURG

Staatsoper Tonight: L'elisir d'amore. Tomorrow, Sat: Le nozze di Figaro. Fri: Il trovatore. Sun: Der Rosenkavalier with Edith Mathis, Susanne Mentzer, Barbara Bonney and Kurt Rydl. Tues: La boheme (040-351721)

■ LEIPZIG

Gewandhaus Tomorrow, Fri: Kurt Masur conducts Gewandhaus Orchestra in works by Schumann and Bruckner, with piano soloist Martha Argerich. Sun: Dmitri Sitkovetsky violin recital. Mon: Horst Förster conducts Akademisches Orchester Leipzig in Telemann, Mendelssohn and Wagner, with piano soloist Susanne Grützmann (0341-713 2280)

■ LYON

Auditorium Tomorrow, Fri, Sat: Sixten Ehrling conducts Orchestre National de Lyon in works by Nielsen, Rakhmaninov and Dvorak, with piano soloist Jean-Yves Thibaudet (7860 3713)
Opera Next Tues: Kent Nagano conducts first of five staged performances of Strauss' Le bourgeois gentilhomme and the original 1912 version of Ariadne auf Naxos (tel 7200 4545 fax 7200 4546)

■ MUNICH

Staatsoper Tomorrow, Sat, next Wed: Il trovatore with Elena Filipova, Stefania Toczyska, Dennis O'Neill and Justino Diaz. Fri: Ray Barra's production of Minkus' ballet Don Quixote. Sun, Tues: Don Giovanni with Gino Quilico, Laszlo Polgar and Laurence Dale. Mon: Peter Schneider conducts Bavarian State Youth Orchestra in works by Beethoven, Prokofiev and Kodaly, with violin soloist Markus Wolf (089-221316)
Gasteig Tomorrow, Fri: Donald Runnicles conducts Bavarian Radio Symphony Orchestra in works by Beethoven, Berlioz and Shostakovich, with soprano Susan Graham. Sat: Viktoria Mullova is violin soloist with Württemberg Chamber Orchestra. Sun: Marjana Lipovsek is mezzzo soloist in an opera concert with Munich Radio Orchestra. Mon: Nikolai Petrov plays Tchaikovsky's First Piano Concerto in a programme with Sinfonia Varsovia (089-4809 8614)
Kammerspiele A new theatre piece by Bob Wilson has just been added to the repertory, entitled Der Mond im Gras and based on Grimm's fairy tales (089-2372 1328)

■ OSLO

Konserthus Tomorrow, Fri: Vladimir Fedosseyev conducts Oslo Philharmonic Orchestra in works by Asa Hedstrom, Gubaidulina and Tchaikovsky, with violin soloist Stig Nilsson (2283 3200)

■ STOCKHOLM

Royal Opera Tonight, Tues: Doctor Glass, new two-act opera by Arne Mellnäs, libretto by Björn Hakanson after novel by Hjalmar Söderberg. Tomorrow, Mon: La boheme. Sat: John Neumeier's ballet Peer Gynt, music by Schnittke. Tomorrow and Tues at Rotundan: Jungruma (The Maids), new chamber opera by Peter Bengtson after the play by Jean Genet (tickets 08-248240 information 08-203515)
Konserthuset Tonight, tomorrow: Kurt Sanderling conducts Royal Stockholm Philharmonic Orchestra and Chorus in works by Mahler and Schubert (tickets 08-102110 information 08-212520)
Berwaldhallen Fri evening, Sat afternoon: Carlo Maria Giulini conducts Swedish Radio Symphony Orchestra and Chorus in Beethoven's Ninth Symphony, with soloists including Anthony Rolfe Johnson and Samuel Ramey. Sun: Reinbert de Leeuw conducts Schoenberg Ensemble in Debussy, Busoni, Berg and Zemlinsky, with soprano Rosemary Hardy. Tues: Paavo Järvi conducts works by Smetana and Beethoven (08-784 1800)

■ STRASBOURG

Palais de la Musique Tomorrow, Fri: Marcello Viotti conducts Strasbourg Philharmonic Orchestra in works by Mendelssohn, Schumann and Prokofiev, with piano soloist Hélène Grimaud (8852 1845)

■ STUTTGART

Staatstheater Fri: Achim Freyer's production of Der Freischütz. Sat: Philippe Auguin conducts first night of Jossi Wieler's new production of La clemenza di Tito, with cast led by Keith Lewis and Catherine Naglestad (repeated April 19, 22, 27, 30). Sun: Ernst Krenek triple bill of one-act operas (0711-221795)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV
(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Ian Davidson

Rethink in the west

Recession is not to blame for all the strains on democratic institutions

Public speculation over the future of UK Prime Minister John Major has become so obsessive that politics in Britain seems to have been reduced to the single question: can he stay or must he go?

The trouble is that this preoccupation with the person of Mr Major distracts attention from bigger issues. The proverbial visitor from Mars may perhaps conclude that he is to blame for all the woes of the British Conservative party. But there may be systemic causes which are not peculiar to the UK, and which will not be cured by the replacement of the Conservative party leader. The personal shortcomings of the UK prime minister need no further demonstration; but they are surely not the whole of the story.

Throughout the western world, democratic governments are under stress if not actually under siege. Look at what happened to the Liberal Democratic party in Japan, or to the Conservative party in Canada; look at what happened to the entire political system in Italy; look at the results of December's elections in Russia. And everywhere there is widespread popular alienation and disillusionment with the institutions of government.

There is no mistaking the anxiety this is causing the political classes of Europe. Last week UK and German politicians, civil servants and academics held their annual Königswinter conference. Their chosen title, Democracy on Trial, was in part an allusion to the tribulations of Russia and eastern Europe: democracy in those countries is on trial because it is unfamiliar. But the earnest debaters from Germany and Britain were also concerned with the stresses on democracy in western Europe: social alienation, crime, racism, xenophobia and the perceived failure of political parties and public institutions.

There is a ready-made explanation for these troubles which is always trotted out: European countries have been going through, and many are still in, the worst recession in recent memory; the result is high unemployment; so no wonder governments are unpopular.

The unstated implication of this is that present problems are mainly cyclical: growth will return as it always has; unemployment will go down again; and governments will recover their popularity. This is monumental Mikawberism.

Current unemployment surely owes as much to massive restructuring as to deficient demand, and we have no reason to assume this process will come to rest on a new plateau of stable growth and secure employment any time soon. On the contrary, it seems more probable that we have entered a new global industrial revolution. This means a far-reaching process of economic transformation, with dislocations to our social structures which may be just as severe as those of the first industrial revolution.

It seems probable that we have entered a new global industrial revolution

If so, our democratic institutions are going to be severely challenged. When the Russians emerged from the deep freeze of authoritarianism, western governments told them firmly that free market reforms and democracy must go together, and instantly. Comfortable liberals applauded this double prescription; but no one should have been surprised that both bits of it have started badly.

As a matter of fact, the lesson of European history tells a different story. The first industrial revolution, with all its attendant social miseries, preceded full democracy in Britain by about 100 years. If the sequence of events had been the other way round, the electorate might have had a word to say about the social effects of the industrial revolution.

Now the wheel has come full circle. For the past 50 years, the heart of the social compact has been that governments, on both sides of the political divide, would deliver prosperity and jobs. Today, governments no longer dare claim to be able to deliver these things. Instead they have a new message, which remains discreetly subliminal: "This is not our problem; this is a matter which we simply must leave to the markets." Unfortunately, the corrosive effect of the free market is so powerful that it dissolves the social compact.

Opposition parties are just as mute on this central issue as the governments. In the UK, Mr John Smith's Labour party keeps such a low profile that it is hard to imagine what his policies would be. In Germany, the top priority of Mr Rudolf Scharping's Social Democratic party seems to be to reassure the world that it is almost the same as the ruling CDU of Mr Helmut Kohl. In France, the Gaullists swept to power on a tide of hope that they must be able to do better for the economy than the Socialists. But a year later those hopes are sinking, while the discredited Socialists are still trying to think of something to say.

In other words, the new industrial revolution may involve a rewriting of the agenda of government in western democracies. The global economy may mean that national prosperity slips out of the grasp of national governments; so what will political parties promise instead? Law and order, and repression of unemployed criminal classes? Exclusion of foreigners and xenophobia? Nationalist populism? Regional separatism? Patronage for their clients?

What is happening in Italy suggests that the answer to all these questions is yes. But perhaps the liberal ideologues, who knew exactly what the Russians ought to do, should turn their certainty to western problems. Let them devise a party platform for a programme of national government in a western country beset by the new industrial revolution; and while they are about it, let them devise an alternative platform for a different programme of government, since parliamentary democracy requires an opposition as well as a government.

No champagne until after take-off

Air France's rescue package has won staff approval. But, as **John Ridding** says, the hard work lies ahead

When Mr Christian Blanc took control of Air France last October, the chips appeared to be stacked heavily against him. A violent strike in protest at a restructuring package had brought the airline to its knees, prompting a humiliating climbdown by the government of Mr Edouard Balladur and forcing the resignation of the previous chairman, Mr Bernard Attali.

Six months on, Mr Blanc is turning the odds in his favour. A referendum on his package of reforms, completed on Monday, showed that more than 80 per cent of the company's staff endorse his plans to cut 5,000 of Air France's 40,000 jobs, freeze salaries and increase working hours. It is a victory, but only a first step in the daunting process of reform.

The vote followed an exhaustive campaign of consultation. Mr Blanc held hundreds of meetings with staff and union representatives to drive home his message that Air France must reform to survive. It also reflected the plight of the state-owned carrier. Losses last year are estimated at FFr7.5bn ($1.28bn) while total debts stand at about FFr38bn. "Many of the staff believe this may be the last chance for Air France," said an official of Force Ouvriére, the airline's largest union.

The result will strengthen Mr Blanc's hand as he seeks to push through the reforms he believes are necessary for the survival of Air France. But the implications spread beyond the fate of the airline.

The successful outcome of the referendum suggests that it may be possible to implement reform in France, after a series of government climbdowns in the face of protests had suggested otherwise. Mr Blanc's triumph could also encourage other state-owned companies to appeal directly to employees in an attempt to overcome union opposition. Concerned by the prospect, the opposition Socialist party yesterday warned of the risks involved in weakening union intermediaries.

On the part of the government, the relief is clear. Last October's turmoil at Air France set the precedent for government concessions to fishermen protesting against cheap imports and, more damagingly, to students demanding the scrapping of a new law which undercut the minimum wage for young apprentices. Rejection of the rescue plan at Air France, which Mr Blanc said would prompt his resignation, could have pushed the company into bankruptcy and presented Mr Balladur with the most serious problem of his administration.

Mr Bernard Bosson, transport minister, said he was "delighted by the decision". He described it as an endorsement of the Balladur method of seeking reforms through consensus and praised Mr Blanc's strategy of negotiations with staff and their representatives.

Not surprisingly, the verdict of Air France's staff prompted less celebration among trade unions. The communist Confédération Générale du Travail, condemned the referendum and its result. "This is not the solution to Air France's problems," said one official.

Some union groups expressed satisfaction with the result. Force Ouvriére which, unlike the CGT, signed the rescue package, declared the result of the referendum a victory for itself as well as for Air France. "Exceptional situations require exceptional methods," said Mr Marc Blondel, the union's general secretary.

For all of the airline's unions, however, the referendum suggests that they have become the followers rather than the leaders of the workforce they represent. Last October, they were caught wrong-footed by the depth of opposition to Mr Attali's plan. "We were surprised by the strength of feeling," admits Mr François Cabrera of the CFDT, the third biggest union.

Mr Blanc exploited this situation through the use of a referendum, the biggest ever held in a French company. By appealing directly to the workforce the chairman has outflanked the eight of the airline's 14 unions which refused to sign the restructuring package. He has also cleared the way for a government capital injection of FFr20bn over the next three years. Mr Balladur had made staff acceptance of the recovery package a condition for releasing state aid.

Air France's Christian Blanc: the odds are now in his favour

Celebrations at Air France and the government, and obituaries for Mr Blanc's union opponents, may, however, prove premature. If Mr Blanc has won a battle, he is still a long way from winning the war. He must now negotiate with employees and union representatives about how to implement his restructuring package and attain his goal of a 30 per cent increase in productivity by the end of 1997. Union resistance cannot be discounted. CFDT yesterday warned Mr Blanc against believing he would now have a "state of grace".

The subsidies promised by the French government must also be cleared by the European Commission. More broadly, the question remains whether Mr Blanc's proposed remedies are sufficient to turn it around. "We have the hardest part still to do," said Mr Blanc, after announcing the referendum result.

The next hurdle for Mr Blanc's rescue plan lies in Brussels. The European Commission is already investigating a FFr1.5bn capital increase for Air France, which was raised through a bond issue taken up last year by the Caisse des Depots, the state-owned financial institution. This sum pales beside the amount currently proposed.

Air France's rivals are expected to mount a campaign against the new injection of state aid. But most observers believe it will ultimately be approved, even if it requires concessions such as increased access to the French market for foreign carriers. "I can't see Brussels refusing the capital," says Mr Bertrand d'Yvoire, president of Consultair, the Paris-based aviation consultancy.

This view was supported yesterday following talks in Paris between Mr Abel Matutes, European transport commissioner, and Mr Balladur. After the meeting, Mr Matutes expressed confidence that agreement could be reached, although he linked it to progress in liberalising France's airline market.

The capital injection is a necessary but not a sufficient condition of recovery. Mr Blanc now has to implement his plan and fill in the blanks of the framework agreement approved in the referendum. Some specific proposals have already been advanced. The airline's fleet, for example, is to be reduced from 166 to 149 aircraft over the next five years. Assets, including the Meridien hotel chain, are to be sold to raise cash and strengthen the balance sheet. But other elements of the plan, such as the job cuts, have yet to be clearly defined.

Many industry observers believe the measures should also be extended. "The plan is a good first step, but it will have to go further," said Mr d'Yvoire.

Mr Blanc is aware of the need for fundamental reform. He has outlined plans to divide the group into separate profit centres to increase accountability. He has also said he will move to eliminate inefficiencies in the operation of the company's fleet. The airline's services to Hong Kong, for example, use three different types of aircraft, requiring long staff stopovers on the island.

The problem for Mr Blanc is that time is against him. Air France's main rivals long ago realised the need to increase efficiency and are unlikely to stand still in the run-up to the liberalisation of the European airline market. At the same time, Mr Blanc must be careful not to alienate his staff by forcing the pace of reform.

The Air France chairman can take some encouragement from signs of improvement in the airline market. The company's load factor – the ratio of passengers to seats – also rose to 72 per cent in the first quarter this year, from 63 per cent in the same period in 1993. "The trend will ease the pressure, but he certainly can't count on that alone for recovery," said an industry observer.

Mr Blanc is unlikely to. After his success in the referendum he is already preparing for the next round of negotiations with staff and union representatives. Monday's victory makes his task easier, but it will be a long time before he can open the champagne to drink with his cigar.

LETTERS TO THE EDITOR

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Simplistic polemic is no answer

From Mr Simon Martin.

Sir, Christopher Dunkley's article, "Nature, nurture and nastiness" (April 9/10), is symptomatic of a distressing journalistic tendency, increasingly in evidence even in quality newspapers such as yours, to engage in sophism under the misapprehension that it makes good copy.

Nobody, be they "expert" or simply possessed of an ordinary degree of common sense, would argue that video nasties *cause* violent crime, which is entirely the thrust of Mr Dunkley's argument.

The opinion offered by Professor Elizabeth Newson and her cohort of "experts" (and undoubtedly shared by many of those lesser mortals possessed of the common sense just referred to) is that there is probably a *link* between the two.

An article that attempted to change this opinion by use of reasoned argument, backed up by cogent supporting research, would be both interesting and informative, as well as adding to the quality of debate on what is an important point. To read a simplistic polemic that takes as its starting point an entirely false premise does not have these (or any other) benefits.

Simon Martin,
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Hong Kong

New technology for Channel 5 not in viewers' interests

From Mr John Howkins.

Sir, The letter by Richard Norman of the British Radio and Electronic Equipment Manufacturers Association (April 8) said that manufacturers do not want Channel 5, which could be on air next year, to use "existing technology". He proposes a new digital technology which is not yet available and which cannot be received on existing TV sets. This is not surprising, since his members gain if viewers have to buy new sets. But it is not in the viewers' interests.

He gives no evidence as to why the existing technology in every TV set, video, etc, is no good. He just says that it has been overtaken by other technology. It has not. Everyone's analogue TV set should last a long time.

His approach smacks of interventionism of a high order, with an echo of the European Union's failed attempt to impose the Mac standards, which BREMA backed, on satellite broadcasters. Modern communications policy should not be based on the manufacturers' desire to make things.

Mr Norman is highly optimistic about digital broadcasting. But I doubt anyone will be broadcasting digital TV terrestrially in "three to five years". Anyway, it would take many years for digital to reach the kind of coverage that Channel 5 will have from day one.

He says digital technology will bring "six to eight channels". Fine. Anybody who wants six to eight channels now, or indeed 16 to 18, can get them from the Astra satellite.

Channel 5 offers extra choice on existing TV sets. I am sorry to disappoint the manufacturers, but that is what the viewer prefers.

John Howkins,
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EU key to Ukraine's independence

From Mr Viacheslav Skryghin.

We wholeheartedly support Ian Davidson's call ("Russia policy is vital", March 30) for a comprehensive and definitive policy on the part of the European Union towards extending its sphere of influence eastwards.

While Davidson acknowledges, but excludes, territories of the former Soviet Union in his argument for expanding EU influence in central and eastern Europe, we in Ukraine foresee the impact such influence might have on our own development and we encourage its growth.

Ukraine, currently seeking to define its political identity, has been straddling a course between east and west. While we cannot deny that Russia's influence will predominate for some time, those of us who encourage a western orientation to Ukraine's future understand that extending EU influence to our borders will help propel Ukraine toward true independence from its eastern neighbour.

Therefore, EU expansion to the east will help balance possible Russian aggression in Ukraine's political and economic development and Ukrainian acquiescence to its powerful force.

We understand the geopolitical difficulties and complexities currently faced by both the EU and the US in formulating a policy towards Russia and its former republics which meets western interests without antagonising a still powerful political giant.

Nevertheless, we cannot help but believe that the integration of the Soviet Union's former satellites into the EU is the first step towards ensuring Ukraine's independent future.

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Suggested route a competitive cul-de-sac for cable operations

From Mr E P O Mercer.

Sir, I rather think the route suggested in your leader "Superhighways for Britain" (April 7) will lead to the UK going up a competitive cul-de-sac rather than to the establishment of choice of open roads for the consumer.

As the director general of telecommunications has clearly decided, the future benefit of the consumer lies in having a choice of a local loop competitor. The way to achieve this is through competition and that will not be encouraged to grow sufficiently to be of impact soon enough, or at all, if one begins now to rock the regulatory boat by letting BT carry entertainment.

There are a number of public offerings under preparation which will, if they are successful, generate considerable equity funds for the building by cable operators of alternative local loop infrastructure in the UK.

The considerable investment already encouraged into UK cable has partly been the function of a stable regulatory regime since 1991. Meddle with that certainty now and you risk losing the speed with which competition will be able to take root by making the outcome of the proposed offerings more uncertain.

There is quite a lot BT can do before the planned 1988 review on its carrying broadcasting. From the beginning of this month it can apply for cable franchises in its own right, and there is a large part of the UK not yet franchised. In any event, video-on-demand does not need the same kind of broadcasting licence as a cable operator – at least according to the Independent Television Commission. Certainly, home banking, shopping or business services do not require an entertainment services licence, so what is preventing BT developing its networks in urban areas if it thinks there is a market for those?

There is no evidence at all that the present policies will lead to the subsidisation by BT of new entrants; rather the opposite. New entrants may end up subsidising BT through the access deficit contribution system.

As, increasingly, the new entrants go on to put fibre in the ground in the UK, Mr Heseltine need not worry about Britain losing its competitive edge – he should be more concerned about the competition being strangled at birth than of BT losing the odd appendage.

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FINANCIAL TIMES
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Mediation in Natal

If South African politicians had any doubts about the cost of the country's constitutional crisis, these must by now have been dispelled. In the early hours of Saturday morning a peace summit collapsed. When trading began on Monday, the financial rand, the country's investment currency, followed suit. If this message, coupled with the rising death toll in Natal, does not concentrate minds, then the team of international negotiators which arrived in Johannesburg yesterday has embarked on a hopeless mission.

As it is, there is no quick fix, for the odds are heavily stacked against Lord Carrington, the former British foreign secretary, Mr Henry Kissinger, ex-US secretary of state, and their colleagues.

It is a month since the initiative was first mooted by South Africa's main leaders. In that time positions have, if anything, hardened. Friday's summit showed that Chief Mangosuthu Buthelezi, the leader of the Inkatha Freedom party, remains determined to boycott the April 26-28 election. The Zulu king, Goodwill Zwelethini, reasserted his claim for Zulu sovereignty in Natal. President F.W. de Klerk can do little more than stand in the wings, for power slips daily from his grasp.

The ANC is more determined than ever that the poll should go ahead. The ANC is probably right. The option of postponement may have existed a month ago, but it has now gone. Delay would create too much uncertainty, straining the stability of an already fragile administration.

With positions entrenched and little time left, the negotiators' task appears impossible. The constitutional question at stake is fundamental to South Africa's future, involving the relationship between central government and the country's nine provincial assemblies. But the mediators' journey need not be in vain. For the first time since the negotiating process began, outside intervention has been sought. The world has a responsibility to respond constructively.

At this stage, it may well be that all the mediators can do is to take stock and assess whether South Africa's leaders have truly made their best efforts to resolve the crisis. If they judge not, the mediators would be doing a service if they said so, bluntly and publicly. They might also warn that, although elections may go ahead, the problem of Natal will not go away. The crackdown on the province expected imminently can at best only be a palliative. Without a political solution it could well exacerbate the conflict in the longer term. Nor is it likely that Chief Buthelezi, required by law to surrender his position of chief minister of kwaZulu after election day, will go quietly.

Whether as mediators in a deepening civil conflict, or trying to resolve a constitutional impasse, the good offices of outsiders will be surely required. The first visit of Lord Carrington and Mr Kissinger may be a short one, but sooner or later, South Africa's politicians will probably have to invite them back.

Lancer's lot

The possibility that Lancer Boss, the last UK-owned maker of fork-lift trucks, may pass into foreign hands will no doubt prompt the usual hand-wringing in Britain over the disappearance of indigenous manufacturing capacity. Yet a transfer of ownership overseas would in this case amount to little more than repatriation. At the date of the last published balance sheet, less than a fifth of Lancer Boss's £192m turnover was generated in the UK. Of the 70 per cent or so that came from continental Europe, a majority was from Steinbock Boss, the third-largest German lift truck manufacturer which was acquired by Lancing Boss in 1983. The foreign tail has clearly been wagging the British bulldog.

More interesting than the ownership question is the reason for the failure to turn a domestic industrial success story into a durable international operation. The fork-lift truck industry is, after all, a post-war phenomenon. It has been more open than traditional areas of engineering to new entrepreneurial entrants. Companies like Lancer Boss and Lansing Bagnall, which was earlier taken over by the biggest German lift truckmaker Linde, performed well in the earlier stages of the industry life cycle but failed to establish themselves as robust independent entities in a period when global capacity was being rationalised.

The strength of German mechanical engineering, the size of its domestic market and the stability of the German economy are no doubt part of the explanation for British – along with French and Italian – ineffectiveness. Equally striking is that Lancer Boss, in order to make the transition to a powerful internationally-based manufacturer, felt obliged to take a huge risk by buying a troubled German company much bigger than itself. Against the background of a less stable British economic environment it was transforming the scale of its operations and magnifying the potential financial consequences of any managerial weakness.

The risks were heightened by banking arrangements which appear to have left maximum room for misunderstanding in a financial crisis. A national approach to receivership in a pan-European group is a formula for preventing the full value of the business being realised, given that the subsidiaries in Britain and Germany were fairly closely integrated. Yet in a single market where countries compete over the relative flexibility of closure arrangements to attract inward investment, the politics of Euro-receivership look hopeless.

The story should nonetheless be seen in context. If stability in Germany is a boon to mechanical engineers, Britain derives comparative advantage from precisely the opposite phenomenon. Its overwhelming success in international financial services stems partly from the need to deal with growing financial instability. And that, of course, is a source of constant hand-wringing in Germany.

Defence mergers

Cuts in defence budgets have put defence contractors under strain around the world. On each side of the Atlantic, arms-makers are choosing different paths to seek compensation for falling orders. In Europe, companies are increasingly joining forces in collaborative international arrangements, as in the prospective Anglo-French-Italian frigate project or the joint venture in missiles being discussed between British Aerospace and Matra. In the far larger US market, reorganisation is taking place through mergers and disposals. The latest example was Northrop's takeover of its rival aerospace company, Grumman, agreed last week.

The agreement outlined yesterday under which the US government will ease some defence mergers by setting aside anti-trust considerations shows how the Pentagon hopes to steer the restructuring process. While spending a lot less on weapons, the US has a crucial interest in maintaining the industrial and technological capabilities that underpin its status as the world's sole superpower.

The defence industry has been lobbying hard for a softer anti-trust line. The Federal Trade Commission last year turned down a prospective acquisition by the Alliant ammunition group, which would have given it a virtual monopoly of the tank ordnance business.

With annual US arms procurement spending down by 60 per cent in real terms from 1985 levels, the administration is watching defence consolidation with mixed feelings. On the one hand, the Pentagon has the chance of putting equipment purchases on to a more rational basis, where decisions are driven by need rather than political pressures. On the other, the sector's shrinking base presents a long-term challenge. A shortage of competing suppliers can impede the drive for better value for money. In extreme cases, the government can be forced to take uneconomic industrial policy decisions to maintain sources of domestic supply.

Already, in purchases of tanks and nuclear submarines, the US is now dependent on a single supplier. The Pentagon apparently believes that only two-thirds of necessary consolidation has so far taken place. Northrop's acquisition of Grumman indicates how takeovers can improve industry structures, since the company will now be in a better position to compete with the three main combat aircraft-makers, McDonnell Douglas, Lockheed and Boeing.

As the US procurement budget continues to decline, yesterday's agreement paves the way for further takeovers. America's European partners should use the opportunity of new thinking in Washington to press for greater US-European tie-ups. If the US wants to improve the structure of its defence industry, then European companies seeking entry to the American market should be allowed to play a fuller role in the process.

Ukraine's elections have heightened political tensions and threaten prospects for reform, says John Lloyd

A country torn this way and that

The democratic voice of Ukraine, as in Russia last December, has spoken the mind of a people unable to trust what has been advertised as reform. They seek refuge in old (communist) and even older (nationalist) certainties, or myths which promise deliverance of one kind or another.

Unlike in Russia, however, Ukraine's 52m people have experienced at best partial reform. Inflation has reached as high as 90 per cent, but prices have not been liberalised. The state can no longer support its enterprises and farms, but there is little privatisation. It could be said the greatest reform of all – that of creating an independent state in place of a Soviet republic – has succeeded, but even that is partial, contested and insecure.

In all the crucial aspects of its citizens' life and wellbeing, Ukraine has gone towards the edge, but drawn back, not once but many times. Thus the considerable pain which people have suffered and still suffer has been less a result of reform than of a lack of reform. The pain of a real transformation is yet to come.

The danger which the new parliament seems certain to bring is of a legislature and an executive unable to negotiate the impasse. It is the danger of a country drifting into a combination of government paralysis and economic decline, where the need grows for extreme solutions and thus for extreme politicians and groups to introduce and administer them. This has not yet happened and may not, but Sunday's elections heighten the possibility.

Mr Yuri Yekhanourov, the deputy economics minister and one of the government's few (frustrated) reformers, says of the people's condition of life that "it may not be dangerous, but it is very, very hard. I have been to farms where the workers have received no pay since October – because the state has taken their produce and paid nothing for it. In the shops, I saw notebooks with column after column of figures where the families' debts are just totalled up, day after day."

The figures he has for the drop in overall output are startlingly bad. In January, it was down by 34.1 per cent compared with the same month last year; in February, 38.9 per cent; in March (unpublished figures), 42.6 per cent. The hugely improved figures for inflation – January 12.6 per cent, February 12.2 per cent, March 5.7 per cent – show why. A tight credit squeeze introduced in December has worked its way through the system to puncture hyperinflation. But since the end of February, the policy has been reversed, and the government has agreed an emission of 50,000bn karbovanets (half last year's gross national product) in the first quarter, though central bank delays have meant not all of that has been released. Next month, inflation will start a probably violent upward spiral once more.

Privatisation has begun, but only as a "trial" limited to 150 enterprises. Roughly 70 per cent of each will go to the workers, who must buy their shares with vouchers and cannot then trade them. The vouchers, to be printed in the US, are not even issued, because no minister will take the controversial step of endorsing them. A state-of-the-art electronic stock exchange has been provided by the French government, on which just two stocks trade for half an hour a week.

Mr Yekhanourov takes some heart from the election of the main figures of economic reform – these include the economics minister Mr Roman Shpek, Mr Volodomyr Lanovoi and Mr Victor Penzenik, two former deputy prime ministers, and a few others. But, he says, "there will be no majority in parliament for reform".

Nor, says Mr Nikolai Mikhailchenko, the main aide to President Leonid Kravchuk, is there likely to be a consensus for constitutional reform. The president's preferred constitution is one confirming him as commander in chief of the armed forces and security establishment, and permitting him to conduct foreign policy, propose the prime minister to parliament and guide the government's work. But Mr Ivan Plyushch, the outgoing speaker in parliament and probably the most powerful figure in the new one, has already put down a marker that he will press for a parliamentary system with a figurehead president.

"The new parliament will present a very tough problem," says Mr Mikhailchenko. "It's not so much divided left and right, with a defined centre. There are extremes, with a mass of deputies who will go this way and that. And you won't be able to tell how."

For the nationalists, who see themselves as the force which did most to keep alive and then recreate Ukrainian statehood, the elections have been a bitter disappointment. They are essentially confined to their west Ukrainian redoubts (the less heavily populated part of the country) and to some districts in Kiev.

Mr Vyacheslav Chornovil, the former dissident and leader of the main nationalist grouping Rukh, gave a typically verbose press conference on Monday which dismissed any compromise allowing Russian to be a state language with Ukrainian or contemplating an economic union with Russia. He is more pragmatic away from his supporters – but can move very little away from his platform pronouncements without losing part of his support to the more extreme nationalists. At any event, the victorious Communists and Socialists will see little reason to accommodate him.

This latter grouping, more than a third of the parliament so far announced and likely to attract many from the independent "swamp", sees itself as riding the wave. Mr Leonid Hrach, the Communist leader in the Crimean region, has already hailed the Ukrainians as having returned to both communism and Russia. For him and for many of the left, the way forward is the way back to the Soviet Union, or at least economic integration with Russia and the other former Soviet states. Russia, which will at Friday's gathering of the heads of the Commonwealth of Independent States propose just such a grouping, is keen to pull Ukraine back more firmly into its orbit, even if much less willing to pay its debts and support its stagnant enterprises.

The two states have a whole field of tensions between them. The Russian-dominated Crimea is steadily increasing what Kiev sees as its "provocations" as it senses Kiev's already flabby power weaken further. The peninsula's president, Mr Yuri Meshkov, yesterday named his own internal affairs minister and KGB chief (both, of course, Russians), thus flouting Ukrainian law. Mr Mikhailchenko says: "The solution is simple: Crimea must obey the law." But he knows it will not be obeyed and that the presence of Mr Meshkov as a president recognised by Kiev already establishes an illegal precedent.

Also dangerous is the dispute over the Black Sea fleet – where a Russian seizure of equipment and retaliatory Ukrainian arrests over the weekend brought a high-level Russian delegation scuttling to Kiev to attempt again to deal with the fleet's ownership. It locates tension among men under arms who, whatever their former good relations, are increasingly provoking each other, with the approval, even the urging, of their respective governments.

The last accord, between Presidents Kravchuk and Boris Yeltsin of Russia, at Massandra last year, is interpreted differently by each side, the Russians insisting it means that the fleet reverts to them in return for cancelled debt, the Ukrainians that it was a mere protocol calling for further work which has proved unfruitful. The US defence secretary William Perry said in Kiev recently that he would be ready to act as a mediator. Says Mr Mikhailchenko: "We would be ready to go along with that but the Russians never would."

Ukraine now reels, but there is no figure capable of steadying it. It has – Mr Yekhanourov sees this as a fundamental problem – no "natural" ruling class. A tragic century, during which Russians, Soviets and Nazis decapitated the best in the society (and murdered much of the society as a whole) has left a pervasive passivity, in which a creditable desire for agreement tends to become a constant descent to lower and lower common denominators. It has produced no outstanding economic reformer, no tough leader, no indisputably moral touchstone. "We will need," says Mr Yekhanourov, "a generation or two before we produce a new leadership class." In the meantime, pressures mount in the void where leadership should be.

Additional reporting by Jill Barshay

One way to tread water

David Lascelles on a scheme to develop a problem site

In mid-April, an eight-lane swimming pool will be opened at Spitalfields, the former fruit and vegetable market on the fringes of the City of London. A few months later, the site will get a second new facility: an opera house.

This is rather strange, because the owner of the 13-acre site was hoping to transform it into a big office, shopping and housing complex. It was diverted by the recession – but, in the process, it has shown that a thriving industry exists in what might be called "interim use" development.

The owner, the Spitalfields Development Group, is a consortium consisting of two construction companies, Costain and BICC, and London & Edinburgh Trust, a Swedish-owned property company. It acquired a 150-year lease on the site in 1987, intending to turn it into an extension of the 1980s City development at nearby Broadgate. It spent £24m moving the vegetable market to new premises in Leytonstone, east London. But before it could begin work on the site, the recession struck, and what had been billed as Europe's largest inner-city project ground to a halt.

The consortium, hit by heavy losses, decided it had to do something rather than watch the property decay on its hands. At least it possessed the market building – an attractive Victorian structure with potential. The consortium asked its architect, Benjamin Thompson and Associates, to draft plans to turn it into a temporary shopping arcade, and invited outside companies to tender for the work.

The UK "interim use" industry consists of a group of small companies which specialise in managing problem sites. The best known is Urban Space Management, which began more than 20 years ago with Camden Lock, a once derelict north London canalside site, now a successful urban market.

Urban Space Management won the contract and in 1991 set up a joint company, Spitalfields Space Management (SSM), with the consortium. Together they contributed a total of £300,000. The money came with a five-year lease on the site, extendable to 2000.

Mr Alan Masterton of Spitalfields Development Group says the aim was threefold: to attract City workers into the site, to mend fences with the local community after the loss of the market jobs, and to earn a bit of cash.

Three years later, Spitalfields has dozens of shops, seven restaurants and several indoor sports areas for soccer and tennis. At weekends it houses the country's largest organic food market. The £200,000 swimming pool is nearing completion in a hole originally intended to be the basement of a new office block. When the opera house, seating 540, is completed, it will be London's first new one for 200 years. Of the 140,000 sq ft available to SSM, fewer than 2,000 remain unlet.

This is the sort of result that gladdens urban planners' hearts. But is it commercial, and could it be replicated elsewhere?

The project is not commercial in the sense that it reflects the full costs. SDG has contributed the site effectively free of charge, and its members have taken big write-offs on their original investment: over £75m between the three of them.

But while SSM got its main asset cheap, it operates as a normal profit-seeking enterprise. There are three aspects to its business strategy. The first is to cut costs ruthlessly. Eric Reynolds, the director, views any price tag as only the starting point. "Cost is a cast of mind," he says. "People have an idea of how much they expect something to cost, and they'll accept anything near that."

The first quotation the company received for the swimming pool, for example, was £750,000. But it cut that by nearly three-quarters by driving hard bargains and picking cheap suppliers. The swimming pool's clear plastic roof was found in Israel. Similarly with the opera house; this is currently budgeted at £500,000, though the price is "not yet fully driven down", says Reynolds. Prince Charles sponsored a personal seat for £900, and other private sponsors are being sought.

The second step is to draw on grants where possible. Reynolds persuaded City Challenge – a state-funded urban renewal initiative – to provide £195,000 towards the pool, because there were 14 schools within a mile which would benefit from it, as well as a large Bangladeshi community living nearby. "The interim uses satisfy both business and leisure needs," says Lesley Klein, chief executive of Bethnal Green City Challenge. "What we have here is a commercial operation able to offer low costs."

The third step is to make the development user-friendly by attracting stallholders and craftsmen, and nurturing the street culture, as at Camden Lock.

Reynolds stresses that his company aims to make a profit, though it also performs a social role: for example, his company's efforts have restored 400 jobs to a site which lost 2,000. "What we're doing here doesn't make a return on what the land is worth. But it's better than shutting the whole thing up."

But being temporary, the plans have to be made with a view to the site's ultimate use. SDG has been advised demand for office space will probably be strong enough to restart development work by 1996-97, though it has agreed to extend Urban Space Management's contract to 2000. Then, the swimming pool will have to be filled in, or moved. The opera house is being built where it can be accommodated in the long-term plan.

OBSERVER

Hoarse Trojans

■ This is not a joke. Ireland's parliament, the Dail, is thinking of constructing an underground tunnel between the Leinster House parliament building and Kildare House, where MPs have their offices.

The 40-yard tunnel would cost about £200,000. The idea for it came up at a meeting of the Dail's committee on procedures and privileges, where some members – fed up with running a well-established gauntlet of picketing protestors – proposed the tunnel as a neat solution.

Things haven't yet come to that sort of pass at the mother of all parliaments, Westminster. John Major is still prepared to risk the twice-weekly, 90-second ride from Downing Street to the Commons in the back of his bullet-proof Daimler.

His problem is the frenzied tunneling going on around him by erstwhile supporters seeking an escape. That was a joke.

Peyton's place

■ Michael Heseltine, who likes to call himself president of the board of trade, clearly has failed to charm the likes of Lord Peyton, former Tory minister.

Peyton has spotted the fact that the government bill to privatise British Coal fails to acknowledge the office of president of the board of trade, and suggests that this means "the president of the board of trade does not in fact exist". Wittily enough, he adds: "Such a state of affairs would obviously be greeted with mixed feelings by many people."

Like who, my lord?

Heavy turnover

■ Jim Maxmin's sudden exit from Laura Ashley is bad news for Americans serving in the top management of Britain's clothing stores.

They may be brilliant retailers but they are getting to be a flighty bunch. David Dworkin did just eight months as Storehouse's chief executive before being tempted away by an offer he couldn't refuse.

Now Maxmin is quitting, following a disagreement over investment, after only 2¼ years on the job. That leaves Burton's John Hoerner, who has just celebrated his second anniversary as Burton's ceo.

Hark to Angell

■ Wayne Angell, a 63-year-old farmer and academic from Meade County, Kansas, is hardly the most obvious choice for Bear Stearns as its senior economist, even if he has eight years' experience as a

'You're as well as we can afford to make you'

Federal Reserve governor. Wall Street economists are, like it or not, first and foremost salesmen – relatively youthful ones at that. Nor do Bear Stearns' gathering strengths in emerging markets exactly cry out for an agricultural egghead.

Despite his dour mien, one of the slightly surprising things about Angell, however, is his apparent love of the limelight and his not inconsiderable talent for self-promotion. He is, moreover, supremely confident in his wackily hawkish views about using commodity prices to target monetary policy.

He should fit in. "Larry [Kudlow, his predecessor at Bear Stearns] was watching what I was doing so carefully that he was kind of my marketing agent," Angell observes. Having survived on the Fed's annual pittance of $123,100, his landing at one of the best payers on the Street makes sound financial sense of course.

And at least this looks like a real job – contrast the grand but nebulous-sounding involvement of former New York Fed president Gerry Corrigan in "special projects" at Goldman Sachs. It also sounds a good deal more serious an occupation than that of former Fed vice-chairman Manley Johnson who peddles all that insider stuff from his perch at Washington DC-based consultants Smick Johnson.

Branson pickle

■ Having teamed up with Delta Air Lines, what will Virgin's Richard Branson do for his next publicity coup?

The bearded entrepreneur, whose BA call sign is the "grinning pullover", is desperate to go supersonic and has been in secret talks with impoverished Air France to borrow three of its Concordes.

The chance of Branson Concordes in Virgin livery competing head-on with the marketing flagship of British Airways' fleet on the London to New York route would cause apoplexy at BA's Speedbird House, particularly as Branson talks happily of BA's Concorde seating being too cramped.

Bernard Attali, Air France's former chairman, was "extremely keen", says Branson. But talks have stalled since Attali lost his job last autumn. "Once we've got the Delta deal done, we hope to pop over to Paris and have a little talk with Air France," says Branson mischievously.

The blue room

■ And now, for the business executive who has everything except style: the IBM bedroom. Who gets these ideas? More, who thinks they are worth a press release? This one is dated April 12 so it's probably not an April Fool's joke.

Apparently, IBM's UK personal computer outfit has "teamed up with American hotelier and restaurateur Bob Payton to create an IBM-themed bedroom at his luxury country hotel, Stapleford Park, in Leicestershire".

Each of the hotel's bedrooms has been decked out according to the whim of a "quintessentially English" company; as of course is IBM.

It gets worse. "In keeping with the innovative and youthful image of the IBM PC company, the bedroom will cleverly incorporate a pictorial interpretation of the IBM logo into the door…"

To incite you to rush straight out, presumably. Who says IBM has lost focus?

FINANCIAL TIMES
Wednesday April 13 1994

Threat of LDP split recedes as Japanese coalition seeks accord

By William Dawkins in Tokyo

The quest for a new Japanese prime minister took a fresh turn yesterday when Mr Yohei Kono, president of the opposition Liberal Democratic party, put himself up for the job.

His move was intended to prevent a split in the LDP, still the largest party in the Japanese parliament, by calling the bluff of Mr Michio Watanabe, a powerful LDP faction leader, who had been threatening to form his own party and join the right wing of the ruling coalition.

A defection by Mr Watanabe would have reduced the LDP's strength in the parliament, and Mr Kono's move put pressure on him to show his loyalty to the party or declare his hand. Later, an aide of Mr Watanabe was quoted on television as saying that the faction leader had decided not to press his challenge.

The LDP jockeying developed as members of Japan's chaotic seven-party coalition tried to heal their own divisions following the power struggle unleashed by last week's resignation of Mr Morihiro Hosokawa, the prime minister.

Leaders of the three right-wing coalition parties, representing a majority of the alliance, again boycotted talks called by the left wing to discuss the leadership, leaving them no closer to agreeing a candidate to replace Mr Hosokawa.

But both sides made conciliatory statements afterwards, indicating that they still want to try to reach an accord, rather than risk an early general election. Japanese political analysts speculated that the coalition now had no option but to try to work together again. The past few days have shown that neither the left nor right wing of the coalition can woo enough LDP defectors to achieve a majority on their own.

Mr Tsutomu Hata, foreign minister, deputy prime minister and front-runner for the succession, said he thought the alliance partners could overcome their differences. Mr Hata is backed by the coalition's right wing.

There was an "emotional wrangle" but the coalition framework had not yet fallen apart, he said. Mr Hata was planning to depart today for the ministerial meeting in Morocco of the General Agreement on Tariffs and Trade, a possible sign that the coalition is closer to an agreement.

Mr Masayoshi Takemura, leader of the New Harbinger party, which is on the left of the coalition, said the parties should "try to overcome their differences and make a new start".

No members of the left wing, including the Social Democratic party, the largest coalition member, have tried to veto Mr Hata as a candidate. The row is over how to contain, to the left wing's satisfaction, the influence of Mr Ichiro Ozawa, the government's backroom strategist and joint leader of Mr Hata's Japan Renewal party, who dominated the Hosokawa administration.

Wrigley promises fair play in UK chewing gum battle

By Michael Skapinker in London

Wrigley, the US company which supplies nearly 90 per cent of the UK's chewing gum, has given an assurance that it will not remove competitors' display stands from shops without written permission from the retailer concerned.

The assurance was given to the UK's Office of Fair Trading, which was investigating a complaint from Warner-Lambert, the US drugs and consumer products group, which is the only other significant chewing gum supplier in the UK.

Warner-Lambert claimed that retailers had been complaining since 1988 that Wrigley's sales representatives had sometimes removed Warner-Lambert display stands or shifted them to a dark corner of the shop.

"This was a situation the retailers didn't enjoy. It was not being done with their agreement," said Miss Caroline Horrill, UK marketing director of Warner-Lambert Confectionery, whose brands include Dentyne, Stimorol and Clorets.

Miss Horrill said most of the complaints about the market leader had come from small shops. Warner-Lambert had not experienced difficulties displaying its products in large retail outlets. "With major retailers, one has a more disciplined environment," she said.

Sir Bryan Carsberg, director general of fair trading, said yesterday that in view of Wrigley's undertaking, he had decided not to mount a formal investigation of the chewing gum market.

Sir Bryan said Wrigley – supplier of Juicy Fruit, Doublemint and Spearmint gum – had also undertaken not to discriminate in favour of retailers who did not stock competitors' products. He said that Wrigley had agreed within one month to bring these assurances to the attention of any of its employees who dealt with retailers.

Sir Bryan added: "I shall be keeping this market under review and should not hesitate to consider more formal action should matters come to my attention that suggest further action to be appropriate."

However, Wrigley said the assurances merely reaffirmed the company's existing trading policy. Mr Philip Hamilton, managing director, said: "It has been and remains the Wrigley company's policy not to offer inducements to remove or to exclude competitors' displays or products from retail outlets."

Schneider group close to collapse

Continued from Page 1

The city's lord mayor summoned journalists yesterday to tell them that Schneider's problems would not have financial knock-on effect for Leipzig, denying rumours that Scheider owns virtually the whole of the city's historic centre.

Deutsche Bank, Germany's biggest bank, said its lending to Schneider was secured on individual properties. The lending is thought to have been made via the group's Mannheim office and Deutsche Centralbodenkredit, a property financing subsidiary.

Hypo-Bank, a large Bavarian bank specialising in property lending, said it was owed a significant sum, but far less than the Deutsche Bank; analysts said this meant an exposure of up to DM500m.

Russia and Belarus sign treaty to establish monetary union

By Leyla Boulton in Moscow

Russia and Belarus yesterday unexpectedly concluded a monetary union treaty which will reintroduce the Russian rouble to the small Slav republic within the next few months.

The treaty was signed by Mr Victor Chernomyrdin, the Russian prime minister, and his Belarus counterpart, Mr Vyacheslav Kebich, after a day of last-minute negotiations.

It has been fiercely attacked by Russian reformers and ultranationalists alike as giving too much away to a country which has everything to gain but little to offer.

Mr Chernomyrdin and Mr Victor Gerashchenko, the Russian central bank chairman, see the deal as helping Russian enterprises to restore Soviet-style trading links. But progress has been held up by the need to resolve objections from both sides.

Mr Sergei Alexashenko, Russian deputy finance minister, said the agreement was supposed to be carried out in stages, although he also said "everything may have changed in the 24 hours leading up to the signing".

In a first stage Russia and its neighbour, most of whose enterprises depend on trade and energy supplies from Russia, would abolish customs barriers and unify the two countries' tariff regimes.

In a second stage, Mr Alexashenko said Belarus had promised – at Russia's insistence – to hold a referendum on its people's willingness to limit the republic's sovereignty and liquidate its central bank. This would be needed for Russia's central bank to take over the functions of the Belarus central bank.

The third stage would tackle the crucial issue of the exchange rate at which roubles would be substituted for Belarus's ailing surrogate currency, the 'zaichik'. Belarus initially insisted on a one-to-one exchange rate, while Russia said the true exchange rate was closer to 3:1. Belarus then sought a separate but more generous rate for individuals' savings, but Russia opposed this as open to abuse by enterprises.

The final sticking point – Belarus's demands for subsidised energy prices from Russia – was due to be postponed until the end of the year, by which time Russian prices may almost match world prices.

Delta gains access to Heathrow

Continued from Page 1

£150m ($219m) in additional annual revenues for Virgin.

Virgin said it expected to report a pre-tax profit of about £10m this year on revenues of about £600m before the additional revenues from the Delta deal which is due to begin in November.

Starting in July, members of each airline's frequent flyer programme will be able to earn and redeem points on the other.

The deal comes just 10 days before a New York court hears a $1bn anti-trust lawsuit brought by Virgin against BA alleging unfair and illegal activities which distorted competition.

Virgin will expand its own flights to North America on May 17 with the launch of a new service to San Francisco.

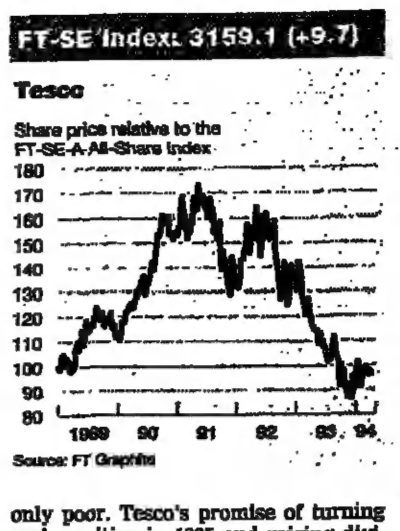
THE LEX COLUMN

Virgin territory

Virgin Atlantic's alliance with Delta Air Lines is a fine example of a commercial solution to a regulatory problem. Buying a portion of Virgin's seats on transatlantic routes gives Delta access to Heathrow without having to wait for landing slots to be made available. In theory, there is nothing to stop such block purchasing agreements being extended to the point at which smaller European airlines become, in effect, suppliers of seats to big US carriers. In practice, though, governments would be reluctant to see a coach and horses driven through their regulations.

Still, joint ticketing arrangements and limited block purchasing are useful expedients for both sides. Virgin is guaranteed around £100m of additional revenue and can extend its frequent flyer programme, a useful weapon in the battle for business class customers. Since Virgin and Delta do not compete directly on any route – unlike Lufthansa and United Airlines, which signed a similar agreement last year – the two parties look like comfortable bedfellows. Yet if Delta gets its own Heathrow landing slots, the conflicts of interest would be great. Without cross shareholdings it will be easy for either side to walk away. The alliance might, however, sneak market share away from British Airways, or United and American Airlines which already fly into Heathrow. But while underlying traffic growth remains strong that may not cause much turbulence. The 3 per cent rise in BA's shares yesterday suggests the stock market realises as much.

FT-SE Index: 3159.1 (+9.7)



Source: FT Graphite

Tesco

There is an old retailing saw that shopkeepers must be good listeners. Unfortunately, Tesco appeared to lose its hearing a few years ago. There are, however, some encouraging signs that its chastened management is now proving more attentive. Same store sales rose 3.3 per cent last year as Tesco sharpened its prices and broadened its product range. Its value lines have proved an effective counter to the discount threat. And Tesco is developing a promising new type of high street metro store that will doubtless win the approval of the evergreen environment secretary.

Against that background, the recent bounce in Tesco's shares relative to the sector is understandable. Investors, expecting the very worst when industry margins were tumbling last year, are relieved that the outcome is only poor. Tesco's promise of turning cash positive in 1995 and raising dividends thereafter adds to its appeal.

Little of this allays the worries about the industry's future. The recent recovery of gross margins may suggest the grocery chains are now achieving a more controlled decline than a headlong fall. But Tesco remains on a fearsome treadmill, spending £779m on capital expenditure last year to produce minimal earnings growth. Superstore capacity is still being added at an eye-popping rate, discounters are proliferating, and price inflation is forecast to fall to just 1 per cent this year. Tesco may be running faster than its rivals, but the sector is still limping.

Daimler-Benz

Daimler-Benz's confident tone and stress on investment yesterday was a world away from the pose an Anglo-Saxon manufacturer would strike in a similarly sticky spot. Whether Daimler's confidence will prove justified is, however, an open question. The company has some things going for it: an under-used asset base offers opportunities to improve margins and raise cash from disposals. Hard times encourage union flexibility. General Motors, Ford and BMW have proved that it is possible to make cars in Germany at a profit.

Yet the challenges remain great. Daimler starts its overhaul of the cost-plus manufacturing facilities, working methods and attitudes from a long way behind the competition. The company has yet to accept that people may not automatically pay more for a three-pointed star on their bonnets. Its expensive diversification has been disastrous. Daimler is now struggling with the huge investment and working capital demands of both the aerospace and automotive industries. Shareholders will want to see positive progress as well as fancy talk before stumping up any rights issue cash later in the year.

UK television

The great television takeover frenzy pumped up the sector's shares like balloons. Now the question is whether the surviving contractors will slowly deflate or pop, given that the big bids are over. A 4 per cent fall in Scottish Television's shares after yesterday's disappointing results suggests the latter may happen. Ulster Television fell by a similar amount in sympathy. Yet there were some particular factors at work at Scottish. The company may have done well to retain its franchise with a cheekily low bid. But the hidden costs of victory are emerging as its strong regional commitment meant it spent £6m on Gaelic programmes.

Nevertheless, the other smaller television companies can hardly justify their racy ratings solely on earnings prospects. Cable and satellite operators will nibble away at advertising growth. Yet earnings are not the only important variable. There may well be further consolidation among the smaller contractors. Flextech's investment in HTV shows that television assets are also highly prized by other media companies. The government's review of the cross-media ownership rules may provoke a further wave of speculative interest. That limits the downside risk to shares in television's Celtic fringe.

Laura Ashley

Mr Jim Maxmin has always looked vaguely ill at ease in Laura Ashley. So his departure from the chief executive's slot is perhaps unsurprising. Some of the company's operational problems have been sorted out in the last three years. Others, most notably in the US, have not. Several of the more serious wounds were self-inflicted. Yet his departure, accompanied only by a brief statement, is unsatisfactory. The appointment of Mr Hugh Blakeway Webb as executive chairman looks like a victory for the old guard, who have let shareholders down before. Convincing explanations will be needed at tomorrow's results presentation.

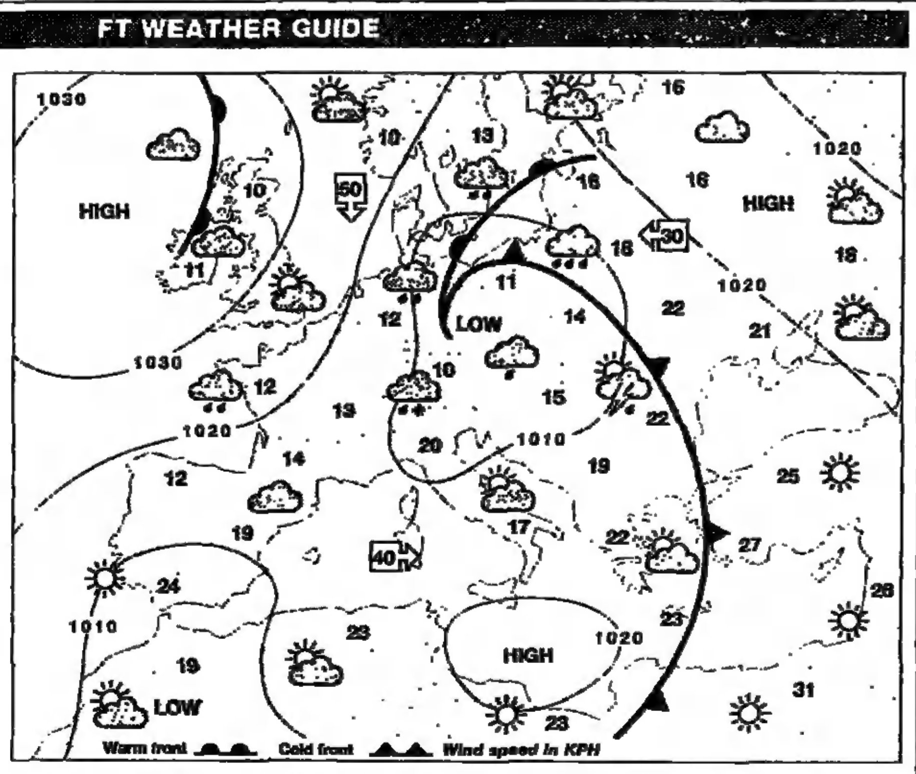
FT WEATHER GUIDE

Europe today

A complex low pressure area over central Europe will produce rain in southern Sweden, Germany, Poland, Hungary, eastern France and the Alps. Snow will fall above 1500 metres. The northern Balkans will have limited sunshine with some thunder showers. The southern Balkans, Greece and western Turkey will have frequent sunny spells. Central and eastern Turkey will have abundant sunshine. Northern Spain and Portugal will be partly cloudy with a shower over the extreme north-west but southern regions be sunny. Italy will have showers this morning, but the afternoon will be dry with sunny spells The northern British Isles will be overcast with scattered cloud in the south.

Five-day forecast

Low pressure over the continent will move north. As a result, central Europe will be mainly dry with sunny spells beginning on Friday. Southern Scandinavia will have rain during the next few days, but conditions will improve over the weekend. The eastern Mediterranean will be mainly sunny, but western regions will have a few showers this weekend. North-west Europe will have sunny spells.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	shower	16	Caracas	fair	30	Edinburgh	cloudy	11	Madrid	sun	19	Rangoon	sun	36
	Celsius		Belfast	fair	11	Cardiff	fair	11	Faro	sun	22	Majorca	fair	20	Reykjavik	rain	7
Abu Dhabi	sun	31	Belgrade	fair	19	Casablanca	fair	18	Frankfurt	rain	10	Malta	sun	18	Rio	thund	26
Accra	fair	32	Berlin	rain	11	Chicago	fair	15	Geneva	cloudy	11	Manchester	fair	11	Rome	fair	16
Algiers	sun	23	Bermuda	fair	23	Cologne	rain	12	Gibraltar	sun	20	Manila	shower	33	S. Frsco	fair	19
Amsterdam	fair	12	Bogota	thund	20	D' Salaam	shower	31	Glasgow	cloudy	12	Melbourne	cloudy	19	Seoul	fair	15
Athens	fair	22	Bombay	sun	34	Dakar	sun	27	Hamburg	rain	11	Mexico City	cloudy	23	Singapore	thund	29
Atlanta	shower	24	Brussels	fair	13	Dallas	sun	27	Helsinki	fair	15	Miami	thund	32	Stockholm	rain	13
B. Aires	fair	24	Budapest	rain	15	Delhi	sun	38	Hong Kong	cloudy	23	Milan	shower	20	Strasbourg	rain	12
B.ham	cloudy	11	C.hagen	rain	11	Dubai	sun	31	Honolulu	fair	27	Montreal	shower	13	Sydney	windy	18
Bangkok	shower	34	Cairo	sun	31	Dublin	fair	11	Istanbul	fair	24	Moscow	cloudy	16	Tangier	fair	20
Barcelona	fair	17	Cape Town	sun	32	Dubrovnik	shower	16	Jersey	cloudy	9	Munich	rain	6	Tel Aviv	sun	31
									Karachi	fair	32	Nairobi	thund	27	Tokyo	fair	18
									Kuwait	sun	32	Naples	fair	17	Toronto	shower	17
									L. Angeles	sun	25	Nassau	fair	23	Vancouver	shower	11
									Las Palmas	sun	22	New York	rain	16	Venice	shower	14
									Lima	fair	27	Nice	fair	16	Vienna	rain	12
									Lisbon	sun	21	Nicosia	sun	27	Warsaw	shower	18
									London	fair	12	Oslo	fair	12	Washington	thund	22
									Lux.bourg	fair	13	Paris	fair	14	Wellington	shower	14
									Lyon	cloudy	14	Perth	thund	28	Winnipeg	shower	16
									Madeira	fair	19	Prague	rain	11	Zurich	rain	10